

**Report to:** Governance and Audit Committee

**Date:** 23 January 2020

**Subject:** **External Audit Update**

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## **1. Purpose of this report**

- 1.1 To present an update on external audit matters to the Committee.
- 1.2 To provide a management response to an outstanding external audit recommendation from the 2018/19 audit regarding related party disclosures.
- 1.3 To consider the Audit Strategy Memorandum from Mazars for year ending 31 March 2020.

## **2. Information**

### External Audit Consultations

- 2.1 At the previous meeting of this Committee it was agreed that a response would be submitted to the two following audit consultations:
  - i. One from Ministry of Housing, Communities and Local Government (MHCLG - Redmond Review) which invited views from anyone with a direct or indirect interest in local authority audit and financial reporting (deadline 22.11.19).
  - ii. The second one from the National Audit Office sought public feedback on proposed updates to its Code of Audit Practice, which called for greater focus on value for money in public bodies (deadline 20.12.19).
- 2.2 Draft responses were shared with members, via email, for comment and then amended responses were submitted by the due dates. The feedback from the consultations will be published later in the year.

## External Audit Fees

- 2.3 Normally at this time of year the Public Sector Audit Appointments Limited (PSAA) consult on the following year's audit scale fees. However, this year is unusual in that the National Audit Office (NAO) is itself consulting on the new Code of Audit Practice that will apply to all local government and NHS audits from 2020/2021 (see para 2.1 (ii) above). The PSAA commissions audits that are Code compliant and so need the final version before they are able to consult on the scale fees.
- 2.4 In addition the NAO intends to consult on and then update the 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. The PSAA will need to take this further consultation into account when constructing their fee proposals and will notify bodies when their consultation paper is issued. The PSAA's current plan is to consult with bodies from 27 January 2020 to 6 March 2020. This will fall outside the cycle of meetings of this Committee and it is proposed therefore that information on the consultation will be emailed to members when it is available and that a decision is delegated the Director Corporate Services, in consultation with the Chair, to determine the content of any response.

## Challenges facing external audit

- 2.5 Though the West Yorkshire Combined Authority has not faced the same issues a number of other public bodies have faced with their annual audit, the PSAA recently provided an update on these challenges.
- 2.6 A significant number of audit opinions were delayed for 2018/19. The causes of delay vary from body to body, however, the most frequent explanations appear to be an increasing shortage of audit resources suitable for local government, and/or concerns about the quality of draft accounts and working papers and/or challenges resolving technical issues within increasingly complex accounts. It is also apparent that the well publicised challenges facing the auditing profession following a number of significant financial failures in the private sector have played a part.
- 2.7 These high profile events have led the Government to commission a number of separate reviews. It is not yet clear what 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 including public sector audits.
- 2.8 In addition the PSAA are aware that there is a wide-ranging debate about the areas of focus for local government audit work, 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 and MHCLG also commissioned the consultation mentioned at paragraph 2.1(i).

- 2.9 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. The precise impact of professional requirements will vary with the unique circumstances of individual bodies. However, audit leads will continue to provide an update on how the audit is evolving including resource, fee or timetable implications. This local dialogue is a vital part of the audit process, and there to ensure that at any given stage we are well informed about what is happening and why.

#### External Audit Recommendation – Related Party Disclosures

- 2.10 Following the 2018/19 external audit one recommendation remained outstanding and needed a further / updated management response. The recommendation was to strengthen our Member Declaration process to include 'close family' members as per the requirements of the accounting standard IAS24.
- 2.11 In summary the initial management response was to explore with district partners how they address this matter as the requirements of IAS24 go further than the statutory regime included in our Members Code of Conduct in relation to the disclosure of pecuniary interests. A further update would then be provided to this committee.
- 2.12 The feedback from partners was that at the year end they separately contact Members, Corporate Directors and other senior management who form the decision making process and ask them to complete a simple declaration form that captures the requirements of IAS24. An explanatory note is provided with the form to explain why this declaration is required.
- 2.13 The proposal is to simply introduce the same process at the Combined Authority.

#### External audit – Audit Strategy Memorandum

- 2.14 The Audit Strategy Memorandum is attached at **Appendix 1** and Mazars will update the Committee on the detail at the meeting.

### **3. Financial Implications**

- 3.1 As set out in the report.

### **4. Legal Implications**

- 4.1 There are no legal implications directly arising from this report.

**5. Staffing Implications**

5.1 There are no staffing implications directly arising from this report.

**6. External Consultees**

6.1 No external consultations have been undertaken.

**7. Recommendations**

7.1 That the Committee consider the information provided on external audit matters.

7.2 That the Committee note the updated response to the outstanding external audit recommendation on related part disclosures.

7.3 That the Committee consider the Audit Strategy Memorandum provided by Mazars.

**8. Background Documents**

None.

**9. Appendices**

Appendix 1 – Audit Strategy Memorandum for year ending 31 March 2020