



The Highland Council

External Audit Progress Report and Plan Addendum 2019/20

Audit and Scrutiny Committee – 24 September 2020

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External audit update

As outlined in our Annual Audit Plan circulated to the Audit and Scrutiny Committee on 27 March 2020 we anticipated concluding our audit procedures and signing the financial statements in September. Due to the impact of Covid-19 and the travel restrictions/social distancing measures in place to control the pandemic, our audit work is being undertaken remotely during 2019/20. Our audit work was due to commence on 6 July 2020. However, there were delays in starting our audit work due to delays in undertaking audits remotely as well as delays in obtaining remote access to the Council's IT systems remotely which impacted our ability to interrogate data and select samples for substantive testing. While our year end substantive procedures are underway, we have agreed with Officers a revised timetable for completing our audit.

While the original publication deadline for the Council's financial statements was 30 September, Schedule 6 of the Coronavirus (Scotland) Act 2020 allows a body to postpone submitting the unaudited accounts to auditors and publishing the audited accounts until it is reasonably practicable. The Scottish Government has provided guidance on this in Finance Circular 10/2020. The guidance advises that 30 November should be considered a reasonably practicable date for publishing the audited accounts, where the deadline of end of September cannot be met.

Updated plan

We have agreed with Officers to complete our audit work during September. We aim to have our audit complete by 2 October 2020 and work will Officers to agree suitable process for finalising the accounts and our audit opinion for submission to the Audit, Risk and Scrutiny Committee and the Controller of Audit by 30 November 2020.

The current environment

In addition to the significant audit risks communicated to those charged with governance in our External Audit Plan (finalised 31 March 2020), the impact of the Covid-19 outbreak has led us to update our planning risk assessment and reconsider our audit and wider scope approach to reflect the unprecedented global response to the pandemic.

Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf
- Reviewed the initial materiality levels we determined for the audit. We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19.
- Worked closely with Officers to deliver the audit remotely.

Other updates

IFRS 16: Leases

Following the outbreak of Covid-19, in March 2020 the UK Treasury announced that to reduce the administration burden on public bodies during the pandemic, the planned adoption of IFRS 16: Leases in 2020/21 would be deferred for a further 12 months.

BVAR Follow up

Completion timeline

The table below summarises the key next stages in finalising the annual accounts and audit process.

Deliverable	Date
<ul style="list-style-type: none">• Finalising disclosure review of the financial statements• Certification of EMA audit	18 September 2020
<ul style="list-style-type: none">• Completion of substantive audit procedures• Completion of wider scope audit work covering the wider scope audit dimensions – <i>Due to the impact of Covid-19 on Council operations we will no longer perform a follow-up of the 2019 Best Value Assurance Report and will follow up as part of our 2020/21 external audit.</i>	Throughout September
<ul style="list-style-type: none">• Certification of Non-domestic Rates Return	30 September
<ul style="list-style-type: none">• Finalising testing procedures and final Engagement Leader Review and Engagement Quality Control Partner Review	2 October 2020
<ul style="list-style-type: none">• Annual External Audit Report to the Officers in draft• Housing Benefits Testing and certification	8 October 2020 31 October 2020
<ul style="list-style-type: none">• Final accounts including external audit opinion submitted to the Audit and Scrutiny Committee and Accountable Officer for approval	TBC
<ul style="list-style-type: none">• Annual External Audit Report to the Council and Controller of Audit• Final accounts signed and audit opinion to the Council and the Controller of Audit• Certification of WGA submission	TBC (Deadline 30 November)

Significant audit risk identified – Covid19 pandemic

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Covid – 19	<p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and restrict the evidence we can obtain through physical observation; • Volatility of financial and property markets will increase the uncertainty of assumptions applied by Officers in the receivable recovery estimates, and the reliability of evidence we can obtain to corroborate Senior Officers estimates. In particular for the Council estimates around the valuation of property, plant and equipment and the valuation of assets included within defined benefit pension scheme; • The adverse impact that covid-19 may have on the Council’s governance arrangements including scrutiny and risk management; • Financial uncertainty will require Officers to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Work with Officers to understand the implications the response to the Covid-19 pandemic has on the organisation’s ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • Liaise with Audit Scotland and other providers under the Audit Scotland contract framework, and take into account wider guidance emerging related to audit quality (for example FRC guidance) and specific sector guidance • Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • Evaluating the impact on the Council’s governance arrangements at the Council of the global pandemic, including and changes in oversight and scrutiny arrangements introduced as a result of / response to the pandemic • Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluate whether sufficient audit evidence can be obtained to corroborate significant estimates such as investment property valuation and recovery of receivable balances • Evaluate Officers’ assumptions that underpin the revised financial forecasts and the impact on Officers’ going concern assessment • Discuss with Officers any potential implications for our audit report if we have been unable to obtain sufficient audit evidence <p>It is noted at this stage, the areas most relevant to the Council we are considering are:</p> <ul style="list-style-type: none"> • IAS 19 Pension Scheme valuations • Property, plant and equipment valuations • Recoverability of receivables • Going concern (as reflected in our wider scope financial sustainability work)