



External Audit Plan Update

Year ending 31 March 2020

Cannock Chase District Council

12th June 2020



Introduction & headlines

Purpose

This document provides an update to the planned scope and timing of the statutory audit of Cannock Chase District Council ('the Council') as reported in our Audit Plan dated 6th of March 2020, for those charged with governance.

The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan dated 6th of March, recent events have led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

Impact on our audit and VfM work

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020. We will liaise with management to agree appropriate timescales. We continue to be responsible for forming and expressing an opinion on the Council's financial statements and VfM arrangements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working. Additionally, it has been confirmed since our Audit Plan was issued that the implementation of IFRS 16 has been delayed for the public sector until 2021/22.

Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf
- Reviewed the 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.

Changes to our VfM approach

We will be updating our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.

Conclusion

We will ensure any further changes in our audit and VfM approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

Significant risks identified – Covid-19 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 expect current circumstances will 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 the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management 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 management 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 other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 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 management estimates such as asset valuations and recovery of receivable balances • Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence

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19 March 2020

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Dear Bob

Covid-19 – Potential impact on this year's Annual Accounts and Audit

I hope that you and your colleagues are keeping well. I know that as a public sector body, the whole organisation will be very focused on your responsibilities to the wider community. We wish you well in executing these responsibilities and recognise that your main priority is, and always will be, the public you serve. For those of us who work within finance, these are sobering times, and a time perhaps for a new sense of perspective about what is important.

Within Grant Thornton, our primary commitments are to the welfare of our people, our clients and of course our wider social responsibilities as part of the community. With that in mind, I will be arranging a call shortly with you to discuss how we can work most effectively with you over the coming weeks, and during the period of the virus. We recognise that you will have a numbers of processes in place to prevent physical interaction which is not business critical and of course we will want to comply with them.

In this context, we need to discuss the extent to which remote working is possible during the accounts audit. Following the government's announcement on Monday 16 March, we are also closing our offices for the foreseeable future and have asked our people to work from home rather than in the office. Many other organisations are doing similar things. Whilst there are some audit tasks which are best undertaken in person such as physical asset verification – other things can be done remotely. It would be good to discuss how we approach this.

I would also welcome the opportunity to discuss potential accounts and audit considerations with you. I have set out some key considerations in an appendix.

On a final note, we anticipate that the timetables may change either because of illness within our respective teams, because of the practical challenges of working remotely, or because of wider factors. We are currently discussing the impact of this with various Government bodies and will update you when there is greater clarity.

I hope this is helpful in setting out some context for the coming weeks. I look forward to discussing with you further. In the meantime, can I encourage you to share this letter with relevant colleagues, including the Chief Executive and Audit Chair.

Yours sincerely

John Farrar

Engagement Lead
Grant Thornton

The following are some of the key issues which we suggest you consider as part of year end closedown. The list may not be exhaustive. As events unfold over the coming weeks, we will discuss these with you further.

Issue to consider

Impact on reserves, financial health and whether the council needs to provide additional disclosures that draw attention to a Material Uncertainty around Going Concern (and resulting impact on the VfM conclusion)

Impact on valuation of PPE and assumptions made by valuers, particularly in respect of carrying value to current value assessment (impact could be especially significant in respect of assets held at fair value e.g. investment properties and assets held for sale)

Viability and value of long-term investments and proposed regeneration of Cannock Town Centre in the short term e.g. properties, industrial units, shopping centre

Recoverability of loans or guarantees which may have been made to third parties

Collectability of debt and assumptions made in bad debt provisions

Impact of recent reductions in the value of financial assets on the actuary's estimate of the IAS19 net pension liability (if actuary's base their estimate on asset values at 31 December 2019, updated estimates will be required)

Impact on post-balance sheets events (the consequences of the virus post 31 March 2020 will generally be non-adjusting post balance sheet events, but some form of disclosure is likely to be needed)

Disclosure of impact in narrative report / annual report

Disclosure of critical judgements

Disclosure of material estimation uncertainties

Content of the Annual Governance Statement, particularly with regards to risks, controls and mitigation

Considerations in respect of service continuity and disaster planning arrangements (this could impact on the VfM conclusion)

Impact on reporting to those charged with governance and signing arrangements
