Statement of Accounts Audit Update – July 2019

Background

The Council must prepare draft Statement of Accounts by 31st May each year, publishing the final and audited version by 31st July. The Councils auditors are Ernst & Young LLP (EY), appointed on behalf of the Council by Public Sector Audit Appointments ltd. This contract saw the cost of our audits reduce by approximately 20%.

There have been significant concerns raised nationally around the capacity of audit firms to continue delivering high quality audit work for a much lower price, and queries have been made both at NNDC and nationally about the availability of resources, particularly as 18/19 audit dates began to be impacted by overrunning 17/18 audit work.

At the March meeting of the Governance, Risk and Audit Committee, EY were asked if they envisaged resources causing a problem for the North Norfolk audit, and they made it clear that they did not anticipate any issues.

Update since June meeting of GRAC

EY started on site on 1st July to audit the statement of accounts as planned. However, due to the slippage of the audit dates of another Council, some of auditors assigned to NNDC were also working on another audit at the same time. This, coupled with the fact that they had not had the resource in place to early test some areas of the accounts as they had done last year, meant they anticipated to have completed the audit by 31st July, but not before the audit committee on 23rd July as previously agreed.

Further delay came about after disagreement between the finance team and EY over the accounting treatment for the Council's investments in pooled funds under a new accounting standard (IFRS9). The Council had opted to elect some of its pooled investments to be accounted for under Fair Value through Other Comprehensive Income (FVOCI) rather than the default of Fair Value through Profit and Loss (FVPL), which is allowed under the standard so long as the investment is an equity instrument. It is this classification as an equity instrument which EY disagree with, meaning they believe the correct treatment of the funds is to account for them as FVPL. Their argument rests on their assertion that investments in these funds are 'puttable', meaning that the Council could ask to sell their holdings and the fund manager would not reasonably be able to refuse this request. The Council disagrees with this, as it is clearly stated in the fund prospectuses that fund managers may suspend redemptions without reason and without time limit, indeed this has been done in recent years after the Brexit referendum result, and in the last few weeks by the Woodford Equity Income fund which was widely reported in the press.

EY advised the Council to seek a legal opinion on whether the Council would be able to sue fund managers for breach of contract should this situation arise in order to back up our accounting treatment. At the time of writing, the Council has instigated this process but has not yet received the opinion. EY have however now indicated that even if the legal view were to support the Councils position, they would still require us to change the accounting treatment if we wished them to still return an unqualified audit opinion on the accounts. The finance team are of the opinion that this is unreasonable, so will be looking to CIPFA and PSAA ltd to intervene and clarify the position on the accounting treatment, as well as the position of the auditors in this matter. The audit manager has removed resource from the NNDC accounts audit until this matter is resolved, meaning the accounts sign off will be postponed until they return to complete their work.