

2019/20 External Audit Fee and External Audit Plan/Scope

Committee considering report:	Governance & Ethics Committee on 15 June 2020
Portfolio Member:	Councillor Ross Mackinnon
Date Portfolio Member agreed report:	14 May 2020
Report Author:	Shannon Coleman-Slaughter
Forward Plan Ref:	GE3932

1 Purpose of the Report

This report is to inform members of the proposed 2019/2020 external audit fee and proposed external audit plan for 2019/2020.

2 Recommendation

For members to comment on and note the report.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	Whereby a Council is deemed to have not produced financial statements in accordance with relevant accounting requirements, this can result in additional testing by external auditors and increased external audit fees.
Human Resource:	Not applicable
Legal:	The scope of the external audit is set in accordance with the CIPFA Code and International Standards on Auditing (ISAs) (UK). The Council's appointed external auditors are responsible for forming and expressing an opinion on the Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Governance and Ethics Committee); and Value for Money arrangements in place for securing economy, efficiency and effectiveness in your use of resources.

Risk Management:	Where external auditors deem that the Council's annual financial statements are not prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and the Local Audit and Accountability Act 2014, and do not provide a true and fair view of the Council's financial position and performance, this may result in a qualified audit opinion.			
Property:	Not applicable			
Policy:	Not applicable			
	Positive	Neutral	Negative	Commentary
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
Environmental Impact:		X		
Health Impact:		X		
ICT Impact:		X		
Digital Services Impact:		X		

Council Strategy Priorities:		X		
Core Business:		X		
Data Impact:		X		
Consultation and Engagement:	Joseph Holmes, Executive Director, s151 Officer. Andy Walker, Head of Finance & Property			

4 Executive Summary

- 4.1 In April 2020 the MHCLG announced that the annual deadline for production of the 2019/20 financial statements and subsequent inspection by external audit would be delayed in response to pressures on Council brought by the Covid outbreak. The revised annual deadline for production of the 2019/20 financial statements is 31st August 2020. Grant Thornton the Council's appointed external auditor has proposed that an interim audit is undertaken in July 2020 supported by a final full audit in September 2020. A detailed audit plan prepared by Grant Thornton and submitted to the Council is included in Appendix B.
- 4.2 In response to an national review published in July 2019 by the Financial Reporting Council (FRC), the FRC identified that external audit firms needed to improve the extent and rigour of challenge of management in areas of judgement, improve consistency of audit teams' application of professional scepticism, strengthen effectiveness of the audit of revenue, improve the audit of going concern assumptions and the completeness and evaluation of prior year adjustments. These findings coinciding with the findings of the 2018/19 audit of the Council's financial statements has resulted with an increased fee structure for the 2019/20 external audit.
- 4.3 The proposed audit fee (which is subject to approval by Public Sector Audit Appointments (PSAA)), for 2019/20 is set at £95,342, compared to a scale fee of £74,243 in 2018/19. Appendix A sets out Grant Thornton's scope for the audit and basis of the audit fee, further details of the proposed fee is included in the proposals section of this report.

5 Supporting Information

Introduction

- 5.1 Grant Thornton, the Council's appointed external auditor has set out the scope of the 2019/20 audit in accordance with the CIPFA Code of Practice and International Standards on Auditing (ISAs) (UK), with a view to forming and expressing an opinion on the:

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- (a) Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Governance and Ethics Committee); and
- (b) Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in the Authority's use of resources.

5.2 For the audit of the 2019/20 financial statements, the proposed fee is set at £95,342.

5.3 In respect of the production of the 2019/20 financial statements, the MHCLG have issued guidance that the statutory deadline for publication for 2019/2020 final, audited accounts will be delayed. The deadline for the production of the 2019/2020 financial statements has been extended to 31st August 2020, with financial statements expected to be audited by 30th November 2020. The change in the annual deadlines is a national change implemented by government in response to the Covid outbreak.

Background

5.4 As at 31 July 2019, 40% of Local Authority audits of the 2018/19 financial statements were not completed, of which West Berkshire Council was one. It is important to note that the 31 July date is **not** a statutory deadline for conclusion of an audit. The Council's appointed external auditor Grant Thornton provided a true and fair conclusion of the 2018/19 financial statements on 30th March 2020.

5.5 The main contributing factors to the delay in Councils having their 2018/19 external audit opinions finalised across the sector were:

- (a) 2018/19 was the first year of the new Public Sector Audit Appointments (PSAA), contracts (PSAA is used by the Council (as by many councils) to appoint auditors on its behalf). As a result KPMG the Council's previous external auditor was replaced by Grant Thornton.
- (b) The audit requirements for 2018/19 increased as external auditors worked towards meeting the anticipated expectations of the FRC, particularly in relation to fixed asset accounting and pensions accounting.

5.6 The FRC publishes an annual Quality Inspection of external auditor firms. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality. In the July 2019 inspection report, the FRC has identified the need for auditors to:

- Improve the extent and rigour of challenge of management in areas of judgement
- Improve the consistency of audit teams' application of professional scepticism
- Strengthen the effectiveness of the audit of revenue
- Improve the audit of going concern
- Improve the audit of the completeness and evaluation of prior year adjustments.

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- 5.6 The above findings from the FRC have resulted in the requirement for increased testing and scrutiny by external audit firms as part of the 2019/20 external audit process. The increased scrutiny also comes with an increased fee structure for the 2019/20.
- 5.7 PSAA also commissioned the Local Government Association's (LGA) Research and Information team to conduct two anonymous surveys seeking the views and experiences of directors of finance and Audit Committee Chairs, respectively, in relation to audits relating to the 2018/19 financial year. Approximately 20% of directors confirmed that for 2018/19 there had been a change in the appointed external audit firm.
- 5.8 The survey of Finance Directors concluded that approximately 40-60% of directors agreed that their auditors worked on a timely "no surprises" basis and approximately 60% felt that the auditors had the relevant skills to deliver the audit. Furthermore approximately 80% of directors confirmed that auditors had imposed a fee variation in respect of delivery of the 2018/19 audit. The overriding themes mostly expressed dissatisfaction or concern with various features of the audit, including proposals of additional fees; lack of communication and delays; poorly managed team changes; the audit team's lack of experience and resources; and more specific concerns around the audit approach, McCloud issues and accounting issues.

Proposals

- 5.9 For 2019/20 the proposed audit scope provided by Grant Thornton (included in Appendix A), includes their response to the FRC findings and outlines key areas of audit focus in response to risks identified during the 2018/19 audit.
- 5.10 The proposed scale fee for 2019/20 is set at £74,423, which is the same level as 2018/19. Grant Thornton have proposed further variations in the 2019/20 fee detailed in the table below:

Area	2019/20	2018/19	2017/18
Scale fee	£74,742	£74,423	£96,653
Increased challenge and depth of work	£5,000		
Materiality	£3,000		
Plant, Property & Equipment	£4,350	£3,000	
Pensions	£1,750	£6,000	
New Standards / developments and local issues	£6,500	£36,350	
Total Fee	£95,342	£119,773	£96,653

Extract from Grant Thornton scoping letter - appendix A

- 5.11 The increased fee of £20,600 covers:

- (a) The FRC has highlighted that auditors need to improve the quality of audit challenge on Property, Plant and Equipment (PPE) valuations. The volume and scope of testing is proposed to be increased to ensure an adequate level of audit scrutiny and challenge over the Council's assumptions underpinning PPE valuations. Additional audit fees of £3,000 were incurred for the 2018/19 audit relating to additional testing of PPE, the increased fee proposal for 2019/20 is £4,350.

- (b) The FRC has highlighted that the quality of work by audit firms in respect of IAS 19 (pension review and scrutiny) requires improvement across cross local government audits. Greater granularity of review will cover depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, supported with heightened levels of documentation and reporting. Additional audit fees of £6,000 were incurred for the 2018/19 audit relating to additional testing of pensions, the increased fee proposal for 2019/20 is £1,750.
- (c) The Council is required to respond effectively to new accounting standards and disclose the expected impact of changes in accounting treatment in the financial statements. During the 2018/19 external audit, the auditors identified a number of issues in both the accuracy of figures and information reported in the financial statements and the quality of supporting working papers which resulted in an additional audit fee of £36,350. For 2019/20 an increased audit fee of £6,500 has been proposed to cover potential additional testing as new processes and procedures across the Council's financial reporting team become embedded.
- (d) For 2019/20 the external auditors have reduced the Council's materiality thresholds from 1.5% of gross expenditure to 1.25% (effectively decreasing materiality from £5.04million in 2018/19 to £4.30million in 2019/20). The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Furthermore additional scrutiny and challenge of the Council's going concern assumptions in light of the Covid outbreak will be undertaken, which is a national requirement and not localised to the Council. The proposed fee increase for 2019/20 related to materiality and depth of work is £8,000.

5.12 The above fees are reviewed and agreed by PSAA, responsible for the appointment of the Council's external auditor.

5.13 In respect of the production of the 2019/20 financial statements, the MHCLG have issued guidance that the statutory deadline for publication for 2019/2020 final, audited accounts will be delayed. The deadline for the production of the 2019/2020 financial statements has been extended to 31st August 2020, with publication of audited financial statements deadline moved to 30th November 2020. External audit have proposed that an interim audit is undertaken in July 2020 with the full annual audit being undertaken in September 2020. The detailed external audit plan supplied by Grant Thornton is included in Appendix B.

6 Other options considered

No other options have been considered.

7 Conclusion

- 7.1 The external audit undertaken by the Council’s appointed external auditor Grant Thornton is scheduled for September 2020 with an interim audit in July 2020. The revised deadlines are in acknowledgement of the MHCLG delaying the statutory deadline for production of the annual financial statement to 31st August 2020 due to the Covid outbreak.
- 7.2 In response to findings from the 2018/19 external audit and with increased scrutiny requirements set out by the FRC, external audit have proposed an increased fee of £95,342 for the 2019/20 audit. It should be noted that the increased scrutiny requirements are a national requirement and not localised to the Council.

8 Appendices

- 8.1 Appendix A – 2019/20 External Audit Scope Letter (inclusive of fee)
- 8.2 Appendix B – 2019/20 External Audit Plan

Subject to Call-In:

Yes: No: X

Report is to note only X

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