



TO: Audit & Governance Committee

FROM: Director of Finance & Customer Services

DATE: 29 July 2020

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT Finalisation of External Audit Fees 2018/19

1. PURPOSE

- 1.1 To advise the Committee of the outcome of the adjudication by Public Sector Audit Appointments Limited (PSAA) regarding the 2018/19 fee variation requested by the Council's External Auditors relating to the additional work needed to be carried out in respect of the 2018/19 Statement of Accounts.

2. RECOMMENDATIONS

- 2.1 The Committee is asked to:
Note the outcome of the adjudication by PSAA in respect of the 2018/19 External Audit fee variation and approve the proposed variation of £10,000.

3. BACKGROUND

- 3.1 The Council's External Auditors, Grant Thornton, requested the following variations to the PSAA Scale Fee in respect of completion of the Council's 2018/19 Financial Statements and work on the Value for Money conclusion; the original scale fee was set out in the Audit Fee letter presented to the Audit & Governance Committee in October 2018.
- 3.2 The additional work was required in respect of:
- additional work, as the Council is deemed to be a public interest entity (PIE) due to some of the investments it held (disposed of in 2019/20);
 - the pension issues arising from the McCloud legal case (relating to the subsequent transitional arrangements included in public sector pension reforms introduced in 2014 and 2015 which have since been deemed age discriminatory);
 - pensions valuations; and
 - Property, Plant & Equipment (PPE) valuations.

PSAA Scale Fee		£79,186
PIE status	(agreed by BwD)	£4,000
PPE	(disputed by BwD)	£3,000
Pensions	(disputed by BwD)	£3,000
McCloud judgement and IAS 19 impact	(agreed by BwD)	£3,000
Total adjustment		£13,000
Revised Overall Fee		£92,186

- 3.3 Following the PSAA adjudication, the adjustments were amended to £10,000 further to an email from the PSAA on 29 April 2020, which stated:

We have now carefully considered and reviewed all of the information provided to us, and have identified that a variation of £10,000 is appropriate. This has been reduced to reflect the matters raised about the audit process, including issues regarding staffing and communication.

Please note that in respect of the additional audit work undertaken by Grant Thornton (GT) we have reviewed the relevant areas of their audit programme and established that elements of the testing required for 2018/19 had not previously been needed. This increase in work reflects in part the areas identified by the Financial Reporting Council (FRC) as requiring improvement.

GT have also confirmed that significant changes have been made to their audit programme over the past couple of years. This has reflected the emphasis from the FRC on Information Provided by the Entity and the increased focus on PPE and Pensions.

- 3.4 The PSAA noted that these variations are largely similar to other submissions they have received and approved.

4. RATIONALE

- 4.1 The Audit & Governance Committee, in its role of providing an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards, is required to oversee external audit, helping to ensure efficient and effective assurance arrangements are in place.

5. KEY ISSUES AND RISKS

- 5.1 During 2017, PSAA awarded contracts for local authority external audit for a five year period beginning on 1 April 2018. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.
- 5.2 The External Auditors work in the Local Government sector in 2018/19 highlighted areas where financial reporting, in particular, PPE and pensions, needed to improve. There was also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with

the FRC requirement that all Local Government audits are at or above the “few improvements needed” (2A) rating meant that additional audit work was required.

- 5.3 One of the consequences of the multiple pressures and challenges which arose in 2018/19 audits was an increase in the number of proposed fee variations for additional audit work that was required. In previous years, the level of such variations has remained relatively stable at around 5% of the sector’s aggregate audit fees.

6. POLICY IMPLICATIONS

- 6.1 To meet its terms of reference the Audit & Governance Committee needs to assess the adequacy of the external audit provision.

7. FINANCIAL IMPLICATIONS

- 7.1 The Council provides for the external audit fees in its revenue budget.

8. LEGAL IMPLICATIONS

- 8.1 There are no resource implications arising from this report.

9. RESOURCE IMPLICATIONS

- 9.1 There are no resource implications arising from this report.

10. EQUALITY IMPLICATIONS & HEALTH IMPLICATIONS

- 10.1 There are no equality or health implications arising as a result of this report.

11. CONSULTATIONS

Nil

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Date: 17 July 2020

Background Papers: External Audit 2018/19 Audit Fee Letter
External Audit Progress Report and Sector Update 6 January 2020