



# BRIEFING PAPER

**REPORT to :** Audit and Governance Committee

**LEAD OFFICER:** Director of Finance

**DATE:** 30<sup>th</sup> March 2021

**WARD/S AFFECTED:** All

## External Audit Fees and Statutory Accounts Audit Deadlines

### 1. PURPOSE

To provide an update on the latest position with regard to External Audit Fees for 2019/20, 2020/21 and 2021/22 and also to update in respect of developments in the audit regulation timetable for 2020/21.

### 2. RECOMMENDATIONS

It is recommended that Audit and Governance Committee;

1. note the contents of the report and;
2. approve the final External Audit Fee for 2019/20 of £108,223.

### 3. BACKGROUND AND KEY ISSUES

Members will recall that several papers were considered at the Committee meeting of 29<sup>th</sup> July 2020 in respect of External Audit fees as follows;

#### 3.1 Finalisation of Audit Fees 2018/19

Agreement and approval of the final variations to the External Audit fee for 2018/19 following independent review by Public Sector Appointments Ltd (PSAA) further to the dispute we raised with them in respect of the fee variations proposed by Grant Thornton.

The fee agreed for 2018/19 was £79,186 base fee plus £10,000 of agreed variations – a total of £89,186.

#### 3.2 Audit Fees and additional work 2019/20

The July papers set out the details of the additional work that External Audit were required to carry out on various areas in the conduct of their audit, and provided a breakdown of the *likely* overall fee of £90,186 comprising; a base fee of £79,186 plus £11,000 of variations for:

- £2,500 - Increased challenge and depth of work
- £3,000 – audit of Property, Plant and Equipment
- £3,000 – audit of Pensions

- £1,500 – new standards and developments
- £1,000 - local issue – Comprehensive Income and Expenditure Statement (CIES) restatement

(Some of the variations are the same as the variations in 2018/19, e.g. Property Plant, Equipment and pensions, however some are different).

Since July, the global Covid-19 pandemic has continued to create further turbulence impacting on all aspects of the economy including the public sector. This has had significant repercussions for the delivery of audits, audit-related issues.

1. MHCLG did act to ease these pressures by providing more flexibility in the 2019/20 accounts preparation and auditing timetable by temporarily revising the Accounts and Audit Regulations. This extended the period by which an authority had to publish its draft financial statements to 31st August, with the revised date for publishing audited accounts pushed back to 30th November 2020.

As with the significant majority of authorities across the country, we too were unable to meet this deadline, although the accounts were subsequently approved at the Audit and Governance meeting on 12<sup>th</sup> January 2021, and signed off on 4<sup>th</sup> February 2021.

2. As is noted in the report from Grant Thornton on the Agenda of this meeting, the impact of Covid-19 has led to an increase in work they have had to complete, and in the time it takes to complete this work due to revisiting planning, increased risk around management's assumption and estimates, more detailed work on financial resilience, and remote working – in addition to the base fee of £79,186 and the £11,000 of variations, they are now estimating that a further charge of £18,037 is required (bringing the total external audit fee to £108,223) to cover areas including;

- **Revisiting planning** – they have needed to revisit their planning and refresh risk assessments, materiality and testing levels. This has, in many cases, driven additional areas of audit work.
- **Management's assumptions and estimates** – the pandemic has led to increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations have been impacted by the reduction in economic activity and Grant Thornton have been required to understand and challenge the assumptions applied by management.
- **Financial resilience assessment** – Grant Thornton have been required to consider the financial resilience of all of their audited bodies. Their experience indicated that Covid-19 has impacted on the financial resilience of all local government bodies, some critically. This has increased the amount of work that they have needed to undertake on 'going concern' and 'value for money' (financial sustainability), in some instances referencing the financial resilience of the organisation in their reports, ranging from just drawing the reader's attention to the organisation's own disclosures in their audit report, through to making use of statutory reporting powers.
- **Remote working** – the most significant impact in terms of delivery has been the move to remote working (for both their teams and ours). Issues are understandable and arise from the availability of the relevant information and/or the availability of relevant staff (due to shielding, being diverted to other essential functions, or other additional Covid related demands). In many instances the delays are caused by the inability of the auditors to sit with the council officers to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.

Given the issues we experienced and the dispute we raised in respect of fee variations for the 2018/19 audit, as agreed, over the course of the 2019/20 Grant Thornton have kept us alerted to pressures they have experienced that could lead to a potential increase in costs and fee variations. They brought to our attention the fact that across their local government audits they had been experiencing significant cost pressures as a result of the longer timescales involved in conducting and concluding audits in the current environment.

Grant Thornton, along with the other local government auditors, have been discussing the issue with PSAA over the course of the year and have noted that these issues are similar to those experienced in the commercial sector and NHS. In both sectors there was a recognition that audits would take longer, with commercial audit deadlines being extended by 4 months and the NHS deadline by a month. At the same time, the Financial Reporting Council also issued guidance to auditors setting out its expectation that audit standards had to remain high, and of the additional work that they required across all audits.

In Grant Thornton's experience the issues highlighted have increased the time taken on audits by an average of 25%, which they understand from discussions with the Institute of Chartered Accountants in England and Wales, is similar to other audit firms. Whilst they have stated that they have tried to mitigate rising costs as far as possible, for example travel time and costs have reduced and they have tried to absorb some of the remaining overrun themselves, it has not proved possible to absorb all of this, hence the variations of £11,000 and the request for additional fees due to Covid of £18,037.

These fees are still subject to approval by PSAA in line with PSAA's normal process.

### **3.3 Fee scale for 2020/21**

A letter was also presented to the July meeting from PSAA which notified the Council of the 2020/21 scale fee of £79,186; however the letter noted that the final audit fee is unlikely to remain at this level because of a variety of change factors, the impact of which could not be accurately or reliably estimated at that stage.

The letter noted that all fee variations require PSAA approval before they can be invoiced.

### **3.4 Government response to the Redmond Review – changes in audit deadlines for 20/21 and 21/22 accounting years and additional funding**

On 9 March 2021, in response to the Independent review of Local Authority Financial reporting and external audit (the Redmond Review), the Government laid regulations that will amend the draft and final accounting deadlines for principal councils, police and fire bodies. The Accounts and Audit (amendment) Regulations 2021 (SI no 2021/263) will come into force on 31 March 2021. The impact of this is;

- the deadline for the completion of external audits will be put back to September 30th for two years for both the audit of the statutory accounts for 2020/21 and for 2021/22. The regulations will amend the draft and final accounts publication deadlines from 1 June and 31 July respectively, to 1 August and 30 September for the next two accounting years; the position will then be reviewed at that time.
- the regulations also include a new requirement for all local bodies to post a notice on their website if they fail to publish their draft accounts by 1 August 2021.

As part of the response, the government also announced in the Local Government Financial Settlement that they would provide £15 million to authorities in 2021/22 to pay for additional costs arising from new reporting requirements recommended by the Redmond review, and for expected increases in audit fees driven by additional audit requirements from the new National Audit Office code of practice – at the time of writing this report, we have not received our allocation of this funding.

The Government is still considering whether structural changes are required to the procurement and regulatory arrangements for local audit and will make a decision on that in 2021.

## **4. POLICY IMPLICATIONS**

None

## **5. FINANCIAL IMPLICATIONS**

Provision has been made within the budget for the annual cost of the external audit fee based on the rates initially confirmed by PSAA.

The costs of any increase in fee above this level will result in an overspend unless offset in full by the additional £15million of funding announced by the Chancellor in his budget of 3<sup>rd</sup> March 2021 to assist with the increase in the cost of audit, for which we await to hear of the allocation for Blackburn with Darwen.

**6. LEGAL IMPLICATIONS**

None

**7. RESOURCE IMPLICATIONS**

None

**9. CONSULTATIONS**

None

**10. STATEMENT OF COMPLIANCE**

The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

**VERSION:** 1

<b>CONTACT OFFICER:</b>	Louise Mattinson - Director of Finance
<b>DATE:</b>	March 2021
<b>BACKGROUND PAPERS:</b>	N/A