

# Audit and Governance Committee



Date of meeting:	11 May 2020
Title of Report:	<b>Audit Fees 2018/19 and Audit Timetable.</b>
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	Andrew Hardingham (Service Director for Finance)
Author:	Paul Looby
Contact Email:	Paul.looby@plymouth.gov.uk
Your Reference:	<a href="#">Click here to enter text.</a>
Key Decision:	No
Confidentiality:	Part I - Official

## Purpose of Report

To provide the Committee with an update of the proposed Audit Fees for 2018/19 and the local and national situation with regard to the completion of external audits within local government. The report includes an email from Public Sector Appointments and a report for the future procurement approach and audit contracts. This report had previously been prepared for the March Committee and has been updated to reflect recent changes.

## Recommendations and Reasons

- I. Members of the Committee note the report.
  - I.1 Members of the Committee to consider whether they want to express their concerns with the reduction of fees as set out within the report and the impact this has had on Grant Thornton completing the 2018/19 audit.
  - I.2 Members of the Committee to discuss with Grant Thornton what plans they have in place to ensure the 2019/20 audit can be completed within the agreed deadlines and the agreed fee and what arrangements they will put in place to ensure they can present their final opinion to this Committee in July 2020.

## Alternative options considered and rejected

N/A

## Relevance to the Corporate Plan and/or the Plymouth Plan

The annual audit is a statutory requirement and our external auditor presents its findings and observations arising from their audit that are significant to Members of this Committee who are

charged with responsibility for governance with regard to finance and internal control. This are directly relevant to all Plymouth's Plan's

**Implications for the Medium Term Financial Plan and Resource Implications:**

The cost of the annual audit fees are budgeted for within the Medium Term Financial Plan.

**Carbon Footprint (Environmental) Implications:**

N/A

**Other Implications: e.g. Health and Safety, Risk Management, Child Poverty:**

*\* When considering these proposals members have a responsibility to ensure they give due regard to the Council's duty to promote equality of opportunity, eliminate unlawful discrimination and promote good relations between people who share protected characteristics under the Equalities Act and those who do not.*

N/A

**Appendices**

*\*Add rows as required to box below*

Ref.	Title of Appendix	Exemption Paragraph Number (if applicable) <i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.</i>						
		1	2	3	4	5	6	7
A	Email from Public Sector Appointments Limited							
B	Future Procurement and Market Supply							

**Background papers:**

*\*Add rows as required to box below*

*Please list all unpublished, background papers relevant to the decision in the table below. Background papers are unpublished works, relied on to a material extent in preparing the report, which disclose facts or matters on which the report or an important part of the work is based.*

Title of any background paper(s)	Exemption Paragraph Number (if applicable) <i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.</i>						
	1	2	3	4	5	6	7

**Sign off:**

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Originating Senior Leadership Team member: Andrew Hardingham											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 13/04/2020											
Cabinet Member approval: <i>Councillor Mark Lowry approved</i>											

## 2. Audit Process and Fees

- 2.1 Grant Thornton were appointed as Plymouth's external auditors by the Public Sector Audit Appointments Limited (PSAA) in December 2017. In addition to being the body with responsibility for local government external audit appointments, they also consult and set the annual audit fees that are paid by each local authority.
- 2.2 Grant Thornton set out their fees in their ISO260 report which was presented to this Committee on 9 December 2019. They are set out below:

### Core Fees

Council Audit	£105,393
Certification of Housing Benefits Subsidy Return	£ 14,041
Certification of Teachers' Pension Return	£ 4,200

### Additional Fees

Assessing the impact of McCloud ruling	£ 3,000
Pensions – IAS 10	£ 3,000

- 2.3 The Council has not agreed or paid the fee proposed for the McCloud work and the Pensions work. At the time of writing this report Officers were waiting to see if any other additional charges will be levied by Grant Thornton in relation to the core audit work before considering a response.
- 2.4 Table I below sets out the Audit Fees paid by the Council since 2014/15. There has been a significant reduction in the core audit fee over this period which has inevitably impacted upon the resources available to conduct the core annual audit and meet the deadline for completion of 31 July.

## Audit Fees Paid to External Audit Since 2014/15

Supplier:	Audit Fees					
	GT	BDO	BDO	BDO	GT	GT
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£	£	£	£	£	£
PSAA Agreed Annual Charge	182,498	136,784	136,874	136,874	105,393	105,393
Additional Fees		34,830			?	
HB Subsidy	17,720	17,477	17,477	17,477	14,041	14,041
Teachers Pension	4,200	4,500	4,600	4,800	4,200	4,200
PSAA Refund of Fees						-12,750
<b>Total</b>	<b>204,418</b>	<b>193,591</b>	<b>158,951</b>	<b>159,151</b>	<b>123,634</b>	<b>110,884</b>

- 2.5 Members will be aware that the Council has to publish its statutory accounts by 31 May each year. This was achieved in 2019. The expectation and target is Grant Thornton will sign off the accounts and provide their opinion by the 31 July each year. However due to the COVID19 emergency the target for the 2019/20 accounts has been moved to 30 November 2020.
- 2.6 Due to a number of factors, which included resourcing issues within Grant Thornton, this deadline was not achieved.
- 2.7 Having considered the delay to the completion of the audit which is due to resourcing issues within Grant Thornton, Members of the committee are asked to consider whether they want to express their concerns with the reduction of fees as set out in table one and the impact this has had upon the auditors work.
- 2.8 Attached to this report (appendix 1) is an email from PSSA which summarises the local audit position in relation to the period 2018-21. The key points are there were still a number of opinions outstanding as at the end January 2020 which the PSSA described as unsatisfactory. The PSSA has commissioned independent research into the sustainability of the audit market. This report is appended as appendix 2.
- 2.9 As at the end of January 2020, Plymouth was one of the 80 opinions outstanding. This is an unsatisfactory situation and one that Plymouth do not want repeated for the 2019/20 audit. Due to the late completion of the 2018/19 audit this has already put pressure on council officers preparing for the 2019/20 audit. Grant Thornton usually complete their interim audit in February in preparation for 2019/20, however council officers received requests for information in March and the Interim Audit continued throughout April.
- 2.10 Having considered the issues raised within this report members of the Committee may want to discuss with Grant Thornton what plans they have in place to ensure the 2019/20 audit can be completed within the agreed deadlines and what arrangements they will put in place to ensure they can present their final opinion to this Committee. Grant Thornton have advised this will be by the end of September 2020.

## **Email from Public Sector Appointments Limited – 28 February 2020**

Dear S151 officer,

Given all the turbulence within the audit industry at the moment, it may be helpful to summarise the local audit position in relation to the three financial years spanning 2018-21.

By this time of the year we would normally expect the vast majority of audits of 2018/19 accounts to be a matter of record and consigned to history. However, at the end of January there remain nearly 80 opinions still outstanding. That is an incredibly unsatisfactory position, particularly for all the bodies and auditors concerned, and a significant concern going forward.

In response to the significant challenges, PSAA has recently commissioned independent research into the sustainability of the audit market which we plan to publish soon. As well as informing our own forward planning, we are keen to ensure that this and other research is available to support the work of the Redmond Review.

One of the consequences of the multiple pressures and challenges which have arisen in 2018/19 audits is an increase in the number of proposed fee variations for additional audit work. In previous years the level of such variations has remained relatively stable at around 5% of the sector's aggregate audit fees. However, while PSAA is still awaiting submission of some of the relevant proposals, it is already clear that a higher level of variations is likely to be proposed for 2018/19 than previously.

Meantime, audits of 2019/20 accounts are approaching. In planning for this next round, PSAA has tried to address two of the concerns which featured most frequently in our conversations and exchanges with bodies about their 2018/19 audit experience. Firstly, bodies want greater certainty about when their audit will take place and, if for any reason it cannot be undertaken in time to meet the 31 July target date for publication of audited accounts, they want to know that is the case at the earliest opportunity. Secondly, if there is any likelihood of additional audit work being required which may lead to a fee variation proposal, again bodies want early information and explanation.

Against this backdrop PSAA has therefore worked with auditors to address both of these issues - the planned timetable and any likely fee variations - in their audit planning submissions to bodies as part of a concerted effort to strengthen auditor-audited body communications.

This theme carries through into preparations for audits of 2020/21 accounts. We are currently consulting on the scale of audit fees for this year in accordance with the timetable prescribed in statutory regulations, which requires PSAA to fix the scale of fees before the start of the relevant year of account. <https://www.psa.co.uk/audit-fees/consultation-on-2020-21-audit-fee-scale/>. This means having to set the fees ahead of the results of the completion of the 2018/19 round and ahead of the commencement of 2019/20 audits. Additionally, in looking ahead to 2020/21, we can also see a series of new developments which are likely to impact on the audit including revised auditing and accounting standards as well as a new Code of Audit Practice. Although these developments will affect all bodies, the impact will vary dependent on the specific local circumstances of each body.

Again, PSAA is encouraging auditors and local bodies to consider these issues in audit planning discussions, to give proper early notice of factors which may require additional work and have implications for fees, and also to allow time for actions which might mitigate risk to the smooth conduct of the audit. We note that the NAO will be consulting on guidance for auditors' work on the new Code of Audit Practice, and so detailed conclusions about how it will affect individual bodies will need to be reserved until the guidance is finalised.

In discussing the fee implications of any factors, whether they relate to developments which affect all bodies or are more specific to an individual local audit, we particularly need the parties to consider both short and long term implications. Some issues will have a one-off impact, affecting a single year. Any resulting variation proposal is for a one-off adjustment. Others will have ongoing implications which may or may not be the same as the impact in the first year. These are likely to point to a need to vary the body's scale fee. Note 1 below explains PSAA's approach to fees more fully, and sets out the importance of revising scale fees where new developments or other local factors have clear ongoing implications.

It is important to stress that the 2019/20 local discussions on fees are happening at the planning stage, which is earlier than has generally been the case in previous years (perhaps not until the results of the audit were reported to you). One of the advantages of earlier discussion is that it allows more time for scrutiny and reflection. If you are unsure about a proposed fee variation, it can be deferred for any relevant information to be collated and examined with a view to revisiting the matter at an agreed later date. Please remember that PSAA reviews and determines every proposed additional fee, whether agreed or not – this is a statutory requirement.

We hope that this information is helpful to you and would be grateful if you would share it with members of your Audit Committee and any other relevant members and officers.

**Tony Crawley**

**Chief Executive**

Public Sector Audit Appointments Limited