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| Meeting: | Audit and governance committee |
| Meeting date: | Monday 30 July 2018 |
| Title of report: | 2016/17 external audit fee |
| Report by: | Chief finance officer |

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose and summary

For the committee to consider and approve the proposed additional external audit fee charge for work completed during the external audit of the 2016/17 statement of accounts.

The additional fee is in relation to extra time cost incurred by Grant Thornton in completing the external audit requirements.

Recommendation(s)

That:

- (a) an additional fee £15,500 to Grant Thornton for additional work carried out to complete the 2016/17 statement of accounts external audit be approved.**

Alternative options

1. To not agree the additional charge, this is not recommended, the additional fee represents additional time spent by Grant Thornton in completing the 2016/17 statement of accounts statutory external audit. PSAA are responsible for fee setting and will take into account the council's view but will ultimately agree (or not) to grant the fee variation request.

Key considerations

2. It is a function of the committee to:
 - review and agree the External Auditors annual plan, including the annual audit fee and annual letter and receive regular update reports on progress; and
 - comment on the scope and depth of external audit work and to ensure it gives value for money
3. The council's external auditor contract is managed by Public Sector Audit Appointments Limited (PSAA). Grant Thornton's proposed 2016/17 external audit fee was £124k, based on the same scale fee applied in 2015/16 as proposed by the PSAA and approved by the committee on 4 July 2016.
4. The scale fee covers the audit of the statement of accounts, value for money conclusion and review of the whole of government accounts. It is based on the reasonable expectation of the auditor on the work required on the accounts and working papers.
5. The scale fee excludes any additional work outside that reasonable expectation.
6. Following identification of additional work, variations to the agreed fee can occur and there is a validation process that needs to be followed. This is where the auditor agrees the proposed fee variation locally, first with officers and then with the audit and governance committee. Following this Grant Thornton approach PSAA for their verification ahead of the variation becoming payable.
7. As highlighted in the update from the external auditor report provided to the committee at its meeting of 8th May 2018, Grant Thornton are requesting a fee variation in relation to the additional work undertaken in respect of the 2016/17 statement of accounts external audit work. Grant Thornton are proposing an additional fee payable of £15,500.
8. The proposed additional fee reflects additional costs arising from unplanned work mainly undertaken in August and September 2017 and is based on staff time totalling an additional 273 hours. The allocation of time spent has been shared and will be verified by PSAA as an accurate reflection of the work undertaken.
9. The bulk of the additional booked time involved additional work in resolving the Property Plant and Equipment (PPE) issues, Comprehensive Income and Expenditure Statement, the Expenditure and Funding Analysis restatement and pension, the extended time to finalise the operating expenses testing and delays in completion of payroll. The additional time also includes the cost of using Grant Thornton's technical team in relation to pension and PPE matters and the greater than normal time input by both the partner director and manager in escalating and resolving matters arising. This arose following a combination of delays in our support for their work and unexpected issues arising.
10. Overrun costs of this scale have not been charged previously, the audit plan aims to avoid this however it is a recognised standard practice where additional costs are incurred.

Community impact

11. In accordance with the adopted code of corporate governance, Herefordshire Council must ensure that those making decisions and delivering services are accountable for them. To support effective accountability the council is committed to reporting on actions

completed and outcomes achieved, and ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in a transparent manner.

12. An efficient and effective audit service supports the council in demonstrating compliance with its code of corporate governance and its corporate plan priority to secure better services, quality of life and value for money.

Equality duty

13. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
14. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

15. The additional fee proposed can be accommodated within existing budgets.

Legal implications

16. The Local Audit and Accountability Act 2014 provides that the audit has to be conducted under a Code of Audit Practice.
17. The duty to prescribe scales of fees for work undertaken in accordance with the Code is a statutory function delegated to PSAA by the Secretary of State for Communities and Local Government.
18. The scale fees for individual audited bodies are normally based on the scale fee for the previous year and are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.
19. PSAA can approve proposed variations to the scale fee for an individual audited body, to reflect changes in circumstances. PSAA will consider the views of the Council when finalising the fee.

Risk management

20. The fee variation proposed has no direct impact on risk management. Improved work planning is intended to reduce the likelihood of a similar issue arising again.

Consultees

21. None

Appendices

None

Background papers

None identified