

Meeting:	Audit and governance committee
Meeting date:	Wednesday 28 November 2018
Title of report:	2017/18 additional 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 2017/18 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 of £6,686 to Grant Thornton for additional work carried out to complete the 2017/18 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 2017/18 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 2017/18 external audit fee was £124k, based on the same scale fee applied in 2016/17 and 2015/16 as proposed by the PSAA and approved by the committee on 10 May 2017.
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. 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. In 2016/17 an additional fee of £15,500 was approved by the committee. This reflected additional costs arising from unplanned work mainly undertaken in August and September 2017.
6. The 2017/18 external audit findings report presented to the committee in July included "additional time to plan has been spent when drafting the plan on group accounts and PPE (property, plant and equipment) in particular. We have yet to assess the impact." Grant Thornton are now requesting a fee variation of £6,686 in relation to the additional work undertaken.
7. The proposed additional fee reflects an overrun on the final accounts audit. The overrun is in relation to the additional time spent on clearing the PPE matters, specifically ensuring the council's assets are presented at a materially correct valuation. Grant Thornton determine the materiality level, it has been recognised that at £5.9m on an PPE carrying amount of £643.0m the materiality level set resulted in additional work that could have been avoided if a higher materiality level was set specifically in relation to PPE. This approach is taken with other clients and is expected to be adopted by Grant Thornton when completing the 2018/19 external audit work.
8. The cost overrun was also as a result of the first time implementation of group accounts. The 2017/18 statement of group accounts included Hoople Ltd, this was a decision made by the council in April 2018 in consultation with Grant Thornton and the Audit and Governance Committee. The chief finance officer proposed that Hoople Ltd be included as a council subsidiary undertaking due to the council being its majority shareholder and to aid transparency of group performance in financial reporting.
9. The above issues resulted in additional external audit work being recorded by senior officers, specifically, 31 hours additional PPE and 15.5 hours for group accounts.

Community impact

10. 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.
11. 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

12. 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.
13. 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

14. The annual external audit fee has remained at £124k pa for the last three years; the 2014/15 external audit fee totalled £166k. The additional fee proposed in this report will be funded by the existing resources budgets.

Legal implications

15. The Local Audit and Accountability Act 2014 provides that the audit has to be conducted under a Code of Audit Practice.
16. 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.
17. 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.

18. 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

19. The fee variation proposed has no direct impact on risk management. The external audit work required continues to evolve until the completion of the audit therefore a cost overrun is a possible inherent risk.

Consultees

20. None

Appendices

None

Background papers

None identified