

Corporate Governance and Standards Committee Report

Report of the Director of Resources

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External Audit Plan 2019-20 and Fee Letter 2020-21

Executive Summary

The Council's external auditors, Grant Thornton, have prepared their annual audit plan for 2019-20. The plan is attached as Appendix 1, it details the programme of work that Grant Thornton intend to carry out during 2019-20, the approach they will adopt and significant risks that they will review as part of the audit. Pages 14 and 15 of the audit plan details the parts of the audit and the fee that Grant Thornton will charge in respect of the external audit of the Council. The overall fee for the core audit of £44,300 had not changed from 2018-19 and was reported to this committee on 13 June 2019.

However, 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. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating. This has led to additional work being planned that was not included in the fee letter presented to this committee in June 2019. The Council received a revised fee letter in February 2020 which is set out in Appendix 2. Appendix 2 details the fees that will be incurred for the additional work in 2019-20 and a comparison with the final audit fees incurred in 2018-19. The revised fee for 2019-20 will be £54,050 for the core audit. A further fee of £25,000 is estimated for the audit of grant claims as set out in page 16 of Appendix 1.

Public Sector Audit Appointments (PSAA) are responsible for appointing an auditor to principal local government and police bodies that have chosen to opt into its national auditor appointment arrangements. At its meeting on 6 December 2016, Guildford Borough Council resolved to opt-in to the appointing person arrangements made by PSAA. Grant Thornton UK LLP was successful in winning a contract in the procurement process and were recommended by PSAA as the Council's auditors for a period of 5 years from 2018-19. This appointment is made under regulation 13 of the Local Audit (Appointing Person) Regulations 2015, and was approved by the PSAA Board at its

meeting on 14 December 2017 and by Council on 10 April 2018. PSAA have written to the Council (Appendix 3) to advise that the scale audit fee for 2020-21 will initially be set at £44,300 which was the same as the initial scale fee proposed for 2019-20. However, the letter makes it clear that the Council can expect to receive a fee variation request from Grant Thornton to reflect the work required to undertake the audit at the Council based on the audit plan and risk assessment of our circumstances.

Recommendation to Corporate Governance and Standards Committee

That the Corporate Governance and Standards Committee approves the external audit plan submitted by Grant Thornton, the fee set out on page 14, Appendix 1 and makes any comments it feels relevant.

Reason for Recommendation:

To enable the Committee to consider and comment on the planned audit fee, work programme and update report.

Is the report (or part of it) exempt from publication? No

1. Purpose of Report

- 1.1 This report provides a summary of the proposed external audit fee and the work programme for the audit of the 2019-20 accounts, value for money opinion and the grant certification work as set out in the audit plan attached at **Appendix 1**. Officers recommend that the Committee notes the fee and makes any comment that it feels relevant.
- 1.2 In addition, **Appendix 3** sets out the fee letter for the audit of the 2020-21 accounts.

2. Strategic Framework

- 2.1 The annual audit by Grant Thornton underpins the achievement of all of the Corporate Plan key priorities. In particular the key priority of Using innovation, technology and new ways of working to improve value for money and efficiency in Council services.

3. Background

- 3.1 During 2017, the audit of local government bodies was retendered by Public Sector Audit Appointments (PSAA) Ltd. As a result, Grant Thornton were appointed as the Council's auditors for a 5-year period from 2018-19 by the PSAA board at its meeting on 14 December 2017 and by this Council on 10 April 2018.
- 3.2 The fee for the 2019-20 core audit will be £54,050, the audit fee is a reduction from the 2018-19 final audit fee of £59,800 (2017-18 core audit fee was £57,533). However, it is an increase from the audit fee for 2019-20 which was reported to this committee in June 2019. The audit plan at **Appendix 1** contains details of the

scope of work covered by the core audit fee. **Appendix 2** contains the revised audit fee letter received by the Council in February 2020.

- 3.3 The external auditor charges a separate fee for Grant Certification and non-audit related work. The indicative fee for 2019-20 of the non-core audit work is expected to be £25,000 as set out on page 15 of **Appendix 1**. The actual fee charged may vary from the indicative fee, depending on the level of work necessary to complete the grant certification work. The certification work covers the audit of the Housing Benefit Subsidy Claim, and Pooling of Capital receipts.
- 3.4 The overall fees to be paid to Grant Thornton for 2019-20 will be £79,050 taking into account all elements of work.
- 3.5 **Appendix 3** details a letter from PSAA Ltd who have advised that the initial audit fee for 2020-21 is £44,300; however, we expect this will be subject to a fee variation to reflect local circumstances as part of the audit planning for 2020-21 (in line with 2019-20).

4. Financial Implications

- 4.1 There is budget provision in the 2020-21 estimates for the audit fees and the fees for other services provided by Grant Thornton.

5. Legal Implications

- 5.1 Section 4 of the Local Audit and Accountability Act 2014 ('the Act') states that the accounts of a relevant authority for a financial year must be audited:
- a) in accordance with the Act and provision made under it, and
 - b) by an auditor (a "local auditor") appointed in accordance with the Act or provision made under it.
- 5.2 Section 20(5) of the Act states that a local auditor must, in carrying out the auditor's functions in relation to the accounts of a relevant authority, comply with the code of audit practice applicable to the authority that is for the time being in force. The current code of practice for UK Local Government is the 'Code of Audit Practice 2020' issued by the National Audit Office (NAO). The code adopts the International Standards of Auditing (ISAs) as issued by the FRC (Financial Reporting Council).
- 5.3 The document known as 'ISA 260 (International Standard on Auditing 260) (Revised), Communication with those charged with governance', requires the auditor to outline the audit strategy and plan to deliver the audit.
- 5.4 Section 7 of the Act requires a relevant authority (such as this Council) to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for this appointment, including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.
- 5.5 Schedule 3, paragraph 1 of the Act also provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a

local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.

6. Human Resource Implications

6.1 There are no human resource implications to the report

7. Conclusion

7.1 The report outlines Grant Thornton's external audit plan for 2019-20.

8. Background Papers

None

9. Appendices

Appendix 1: Grant Thornton: External Audit Plan for year ended 31 March 2020

Appendix 2: Grant Thornton: Audit Scope and Additional work 2019-20 letter.

Appendix 3: Public Sector Audit Appointments: Fee scale for the audit 2020-21
and update on 2019-20 letter