

Corporate Governance and Standards Committee Report

Report of the Managing Director (Chief Finance Officer)

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## **External Audit 2016-17 Fee Letter and the future of Local Government External Audit**

### **Executive Summary**

The Council's external auditors, Grant Thornton, have submitted their audit fee letter for 2016-17. The letter is attached as **Appendix 1**, it provides a broad summary of the programme of work that Grant Thornton intend to carry out during 2016-17. The overall fee for the core audit is the same as the fee charged in 2015-16 however, the fee for grant claim work has increased by 15% due to an increase in risk and level of work necessary to complete the audit of the housing subsidy claim following the Council's claim being qualified by the auditors in 2014-15. The overall fee of £82,532 can be managed within the overall budget for the resources directorate.

Central Government closed the Audit Commission in March 2015. This report also provides Councillors with an update on arrangements for local body audit following its closure.

### **Recommendation**

That the Corporate Governance and Standards Committee:

- (1) approves the external audit fee submitted by Grant Thornton, and makes any comments it feels relevant; and
- (2) notes the arrangements for local body audit following the closure of the Audit Commission

### Reason(s) for Recommendation:

To enable the Committee to consider and comment on the planned audit fee.

## **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 2016-15 accounts, value for money opinion and the grant certification work as set out in the fee letter attached at **Appendix 1**. Officers recommend that the Committee notes the fee and makes any comment that it feels relevant

## **2. Strategic Framework**

- 2.1 The Developing your Council theme within the Corporate Plan 2013-16 sets out the Council's key priorities of improving value for money and efficiency in service delivery and improving the Council's governance structures. The annual audit by Grant Thornton contributes to the achievement of those priorities.

## **3. Background**

- 3.1 When the external audit function transferred to private firms in 2012, the Audit Commission proposed that the scale fee (which covers the core audit) would reduce by 40% and remain the same until the audit for 2016-17. The fee for the 2016-17 core audit will be £57,533; this is the same as the core audit fee for 2015-16. Grant Thornton will prepare and produce a detailed audit plan for submission to the Corporate Governance and Standards Committee in March 2017; however the fee letter contains details of the scope of work covered by the core audit fee.
- 3.2 The external auditor charges a separate fee for Grant Certification work. The indicative fee for 2015-16 is £24,999, which is an increase of £11,074 since 2015-16. 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 the increase in the fee reflects the increase in the level of work required following the qualification of the 2014-15 claim.
- 3.3 Overall, there is a 15% increase in audit fees from £71,458 in 2015-16 to £82,532 in 2016-17. The increase can be managed within the budget for the resources directorate.

### **The future of External Audit in Local Government**

- 3.4 Following enactment of the Local Audit and Accountability Act 2014 (LA&AA 2014), the Audit Commission ceased to exist on 31 March 2015. Prior to its demise, the Audit Commission let a series of framework contracts for the audit of local bodies which will run until 2018 (or 2021 if the government decides to extend the contracts by three years).
- 3.5 Since the closure of the Audit Commission, central government has put the following arrangements in place that relate to the role and functions previously carried out by the Commission:

- 1) Responsibility for managing the audit contracts for local government bodies, along with the Commission's statutory functions for audit (e.g., setting the standards of performance, appointing auditors, setting and determining fees) and value for money work has transferred to an independent private company created by the Local Government Association (LGA).
  - 2) The Commission's responsibility for certifying the use of grant monies from central government by audited bodies was not provided for by the LA&AA 2014 and will therefore cease with the exception of certification arrangements for the housing benefit subsidy claim.
  - 3) The National Audit Office has taken on responsibility for the Code of Audit Practice and guidance, which sets out the way in which auditors carry out their functions. They have also taken on responsibility for conducting national value-for-money studies.
  - 4) The Financial Reporting Council (FRC) has become the overall regulator of audit standards, mirroring arrangements under the Companies Act 2006.
  - 5) The Chartered Institute of Public Finance and Accountancy (CIPFA) and other professional accountancy bodies have been recognised as the supervisory bodies charged with putting in place eligibility rules for those firms wanting to be appointed as local public auditors and the qualifications and experience required to be able to sign off a local audit report.
  - 6) Statutory responsibility for the National Fraud Initiative (NFI) has transferred to the Cabinet Office. The Commission's work in helping to tackle fraud and corruption is transferring to a new Counter Fraud Centre being established by CIPFA.
- 3.6 Once the current audit contracts run out in 2018, local bodies will be able to appoint their own external and independent auditor and will need to do so by 31<sup>st</sup> December preceding the relevant financial year. The maximum length of appointment is five years. The decision will need to be made by full Council and cannot be delegated. Local bodies have to establish, consult and take into account the advice of an independent auditor panel on the selection and appointment of a local auditor. Sector led collective procurement of local audit services is facilitated within the regulations.
- 3.7 This means that, Guildford Borough Council will need to procure its own external auditor by 31 December 2017. It will also need to establish its own independent auditor panel. However, the LGA are consulting on the establishment of a joint procurement exercise for principal councils. This would mean that the procurement of local government body audits is undertaken in large lots, as happened when the audit commission procured the current contracts. Guildford Borough Council has expressed an interest in being part of the LGA procurement exercise and is awaiting further guidance.
- 3.8 If this does not happen, there is broad agreement between the Surrey Treasurers group (i.e., the Chief Finance Officers for all the Surrey authorities) that a joint procurement exercise would be preferable across the Surrey Authorities.

#### **4. Financial Implications**

- 4.1 There is budget provision in the 2016-17 estimates for the audit fees and the fees for other services provided by Grant Thornton.

#### **5. Legal Implications**

- 5.1 The Local Audit and Accountability Act 2014 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 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 issued by the Audit Commission in 2010. The code adopts the International Standards of Auditing (ISAs) as issued by the FRC.

#### **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 fee letter for 2016-17. The audit fee has increased by £11,074 since 2015-16.

#### **8. Background Papers**

None

#### **9. Appendices**

Appendix 1 – Grant Thornton Letter: Planned Audit Fee for 2016-17