



**Report of** the Chief Finance Officer  
**Report to** Corporate Governance and Audit Committee  
**Date:** 27<sup>th</sup> January 2020  
**Subject:** Grant Thornton Annual Audit Plan 2019/20 and update on Audit Issues

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|---|---|
| Are specific electoral wards affected?  | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| If yes, name(s) of ward(s):   |   |
| Has consultation been carried out?  | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Are there implications for equality and diversity and cohesion and integration? | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Will the decision be open for call-in?  | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| Does the report contain confidential or exempt information?                     | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |
| If relevant, access to information procedure rule number:                       |   |
| Appendix number:  |   |

## Summary

### Main issues

1. In order to discharge their statutory duties, Grant Thornton issue an annual audit plan which covers the Council's accounts and the process for assessing its arrangements to secure value for money in the use of resources. The attached report from Grant Thornton represents their audit plan for 2019/20, covering their audit approach, the timing of audit work, and the significant audit risks identified to date.
2. This report also provides an update on the process for audit fee variations and the level of audit fees for 2018/19, and reports the successful outcome of the audit of the 2018/19 Housing Benefits Subsidy grant claim.

### Best Council Plan Implications and Resource Implications

3. There are no implications for the Best Council Plan and no resource implications arising from this report.

### Recommendations

4. Members of the Corporate Governance and Audit Committee are asked to note and agree the nature and scope of the 2019/20 audit plan presented by Grant Thornton.

5. Members are asked to note that following further discussions with Grant Thornton, the Chief Finance Officer has agreed their audit fee variations for 2018/19, and agreed in principle their proposed audit fee for 2019/20, subject to subsequent approval of the variation element within it by PSAA (Public Sector Audit Appointments Ltd).
6. Members are also asked to note the outcome of the audit of the 2018/19 Housing Benefits Subsidy grant claim.

## **1. Purpose of this report**

- 1.1 This report informs members of Grant Thornton's audit plan for the audit of the Council's accounts and its value for money arrangements. The attached report from Grant Thornton highlights the risk based approach to the audit and the main risks they have identified for 2019/20. The report also provides an update on 2018/19 audit fees and on PSAA's process for approving them.
- 1.2 The report also informs members of the outcome of the 2018/19 Housing Benefits Subsidy grant claim audit.

## **2. Background information**

- 2.1 Grant Thornton's statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice. As the Council's external auditors, Grant Thornton are required to satisfy themselves that the Council's accounts comply with statutory requirements and that they have been compiled according to proper practices. In addition they are also required to conclude as to whether the Council has arrangements in place for securing economy, efficiency and effectiveness in the use of resources.
- 2.2 Under the Committee's Terms of Reference, its role includes consideration of the Council's arrangements relating to external audit requirements including agreement and review of the nature and scope of the annual audit plan, and the receipt of external audit reports.

## **3. Main issues**

- 3.1 2019/20 Annual Audit Plan
  - 3.1.1 Grant Thornton's audit has two key objectives, to give an opinion on the council's financial statements (including the annual governance statement), and to review and report on the council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Their audit plan sets out their approach to this work and the planned timing of their reporting to the council during the year.
  - 3.1.2 In relation to their audit of the council's statement of accounts, Grant Thornton have identified two areas where there is a significant risk of material misstatement due to the scale of the assets and liabilities involved – the valuation of property, plant and equipment and the valuation of pension liabilities and assets. Their audit plan also explains that under auditing standards, the potential for management override of controls is a non-rebuttable presumption which auditors are required to take into account in planning their audit work.
  - 3.1.3 In relation to their audit of the council's arrangements for securing value for money, Grant Thornton have identified the key risks as being the council's overall financial

standing given the continuing significant pressures which it faces, and the potential for Brexit to impact on the council.

- 3.1.4 The Audit Plan proposes an audit fee of £198.9k. This includes fee variations of £20.3k, the reasons for which are explained in Section 10 of the Audit Plan. In addition to the information given in their audit plan, Grant Thornton have written to the Chief Finance Officer to provide more detail of the additional audit work proposed and the reasons for it. A copy of this letter is attached as an appendix following the audit plan.
- 3.2 2017/18 Audit fee surplus distribution
  - 3.2.1 Under the transitional audit appointment arrangements in place for 2017/18, any surplus generated by PSAA (Public Sector Audit Appointments Ltd) arising from audit fees for that year is distributed to authorities. The council has recently received a surplus distribution for 2017/18 of £21.6k.
- 3.3 2018/19 Audit Fee issues
  - 3.3.1 Grant Thornton's Annual Audit Letter for 2018/19 which was presented at the November meeting of the Committee advised of a proposed audit fee variation of £9k for the 2018/19 audit. Grant Thornton further advised the Committee verbally at the meeting that this fee increase had been agreed by PSAA. As a result, the Committee requested that officers contact PSAA to seek clarification of the process for charging additional audit fees.
  - 3.3.2 Accordingly, officers have contacted PSAA to ask for clarification on their fee variation process. PSAA have provided assurances that their fee variation process requires that the agreement of the audited body is obtained before they confirm any agreement to an audit fee variation. In this case there had been a misunderstanding over whether the Council had agreed to the requested additional fees.
  - 3.3.2 PSAA further advised that, although their confirmation of the fee variations prior to the Council's agreement being obtained was premature, they could nevertheless confirm that they had carried out a review of the additional work and judged it to be justified. Officers have also met with Grant Thornton, who have provided further information on how their audit work has been affected by additional requirements from the FRC (Financial Reporting Council).
  - 3.3.3 PSAA have written to all S151 officers to explain that their consultation on audit scale fees for 2020/21 will be delayed pending the approval of a new National Audit Office Code of Audit Practice, which will need to be taken into account in the proposed fees. The letter also discusses the current challenges facing local audit and the auditing profession generally. The full text of the letter is included as Appendix A to this report. It acknowledges concerns that under the current local audit regime, auditors are being directed to concentrate on areas which are not seen as priorities by councils, and that various reviews are underway which are likely to have an impact on the future arrangements for audit and financial reporting in local government. However it makes the point that until any such changes are made, audit firms must comply with the requirements of the current framework.
  - 3.3.2 Separately, the council has received an invoice from the West Yorkshire Pension Fund for £1.2k in relation to work done by its auditor Mazars in responding to audit queries from Grant Thornton. Enquiries have been made with WYPF, who have explained that they agreed an overall additional audit fee with Mazars covering their work in responding to all of the employer's auditor queries, and that the £1.2k represents the Council's share of this fee.

### 3.4 Audit of Housing Benefits Subsidy grant claim 2018/19

3.4.1 From 2018/19, the audit of the Housing Benefits Subsidy grant claim is no longer within the remit of councils' appointed auditors, with councils being required to appoint an auditor separately to undertake DWP's requirements in respect of this claim. As previously reported to the committee, the council undertook a tendering exercise and appointed Mazars to carry out the audit.

3.4.2 Mazars have completed their audit of the 2018/19 grant claim. The grant claim of £243.3m was signed off unaltered, although (as in previous years) a small number of minor errors were found. DWP have extrapolated these errors, resulting in an increase of £3.8k in the subsidy grant receivable by the council.

## 4. Corporate considerations

### 4.1 Consultation and engagement

4.1.1 The Audit Plan does not raise any issues requiring consultation or engagement with the public, ward members or Councillors.

### 4.2 Equality and diversity / cohesion and integration

4.2.1 There are no issues regarding equality, diversity, cohesion and integration.

### 4.3 Council policies and the Best Council Plan

4.3.1 Under the Committee's terms of reference members are required to agree the nature and scope of the external audit plan.

#### Climate Emergency

4.3.2 There are no climate implications arising from this report.

### 4.4 Resources, procurement and value for money

4.4.1 The audit plan outlines the areas which Grant Thornton will review in assessing whether the Council has proper arrangements for securing value for money.

### 4.5 Legal implications, access to information, and call-in

4.5.1 In their audit plan Grant Thornton outline how they propose to discharge their responsibilities as defined by in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

4.5.2 As this is a factual report based on past financial information none of the information enclosed is deemed to be sensitive or requesting decisions going forward, and therefore raises no issues for access to information or call in.

### 4.6 Risk management

4.6.1 The report identifies the key risks which Grant Thornton have identified in their audit planning process so far.

## **5. Conclusions**

- 5.1 Grant Thornton have provided the Council with a plan for discharging their responsibilities in respect of the external audit of the Council's 2019/20 accounts and for assessing the Council's arrangements for securing value for money. They have also identified what they see as the main risks.
- 5.2 PSAA's process for audit fee variations requires audit firms to obtain agreement from the audited body before fee variations can be agreed. It has been confirmed that Grant Thornton's audit fee variation requests for 2018/19 and 2019/20 are in line with the requirements of the FRC.

## **6. Recommendations**

- 6.1 Members of the Corporate Governance and Audit Committee are asked to note and agree the nature and scope of the 2019/20 audit plan presented by Grant Thornton.
- 6.2 Members are asked to note that following further discussions with Grant Thornton, the Chief Finance Officer has agreed their audit fee variations for 2018/19, and agreed in principle their proposed audit fee for 2019/20, subject to subsequent approval of the variation element within it by PSAA (Public Sector Audit Appointments Ltd).
- 6.3 Members are also asked to note the outcome of the audit of the 2018/19 Housing Benefits Subsidy grant claim 2018/19.

## **7. Background documents<sup>1</sup>**

- 7.1 None.

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<sup>1</sup> The background documents listed in this section are available to download from the council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

## **Appendix A – Letter emailed to S151 Officers from the Chief Executive of PSAA Ltd,**

**12<sup>th</sup> December 2019**

Dear Section 151 Officer

Normally at this time PSAA is consulting on the following year's audit scale fees. However, this year is unusual in that the National Audit Office is itself consulting on the new Code of Audit Practice that will apply to all local government and NHS audits from 2020/2021. The NAO's second and final consultation stage has now completed, and we understand that it is expecting to present the new Code for Parliamentary approval in the near future. PSAA commissions audits that are Code compliant, and so we need to see the final version before we are able to consult on the scale fees for 2020/2021. Our current plan is to consult with bodies from 27 January to 6 March 2020.

Please note that the NAO intends to consult on and then update the Auditor Guidance Notes (AGNs) that support the Code following its approval. Those AGNs will provide more detail on the auditor's responsibilities, which will be an important factor in ultimately determining the impact on any individual body. We will need to take this further consultation into account when constructing our fee proposals. We will notify you when our consultation paper is issued and look forward to your contribution.

We also want to take this opportunity to update you on the current challenges facing audit. You will no doubt be aware, either directly or indirectly, of the significant numbers of delayed 2018/19 audit opinions in local bodies. This is a much more prevalent problem than in previous years and, needless to say, we are very sorry that it has arisen. The causes of delay vary from body to body. However, the most frequent explanations appear to be an increasing shortage of audit resources suitable for local government work (including significant recruitment and retention challenges), and/or concerns about the quality of draft accounts and working papers (it is acknowledged by CIPFA that producing IFRS-based, code-compliant accounts is a time-consuming annual task, placing considerable strain on what are now leaner finance teams), and/or challenges resolving technical issues within increasingly complex accounts.

It is also apparent that the well publicised challenges facing the auditing profession following a number of significant financial failures in the private sector have played a part. As you know, these high profile events have led the Government to commission three separate reviews - Sir John Kingman has reviewed audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon is currently looking at the audit product.

It is not yet clear what the long term implications of these reviews will be. However, the immediate impact is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.

We are aware that there is a wide-ranging debate about the areas of focus for local government audit work, including concerns that there is too much focus on figures that are not necessarily priorities for audited bodies and electors. CIPFA has recently consulted on the strategy for the Accounting Code, including possible ways that it may evolve in the future. MHCLG has also

commissioned Sir Tony Redmond to review financial reporting and audit in local government. Until such time as changes are made, however, the position is that auditors are required to ensure that they have sufficient assurance to meet the professional requirements in the current framework before they can issue their opinions.

We have spoken to many finance officers and members about their audits, and have just carried out a survey of all opted-in bodies to gather views more formally. One issue that arises regularly is the timing and clarity of auditors' communication. Too frequently bodies do not receive information about additional work which the auditor may need to undertake (as well as related fee implications) until very near to the end of the audit process. We have stressed that bodies need this information at the earliest possible opportunity (accepting that that unforeseen issues arise during the audit process, and that this may be towards the end – the aim is though that they are highlighted as soon as is practicable). This includes that wherever possible auditors should highlight at the planning stage any additional work which is likely to be required during the audit, including potential fee implications. Whilst it may not be possible to quantify the proposed fee until the work is done, early discussion can help to avoid misunderstandings at a later stage. Please note that any proposed variation to the fee remains subject to PSAA approval, and cannot be charged unless we agree to it. There is a description of our process for considering fee variations, and through which we independently review every proposed fee variation, on our website.

The precise impact of professional requirements will vary with the unique circumstances of individual bodies. However, your audit lead will be able to update you on how your audit is evolving including any resource, fee or timetable implications. This local dialogue is a vital part of the audit process, and is there to ensure that at any given stage you are well informed about what is happening and why.

I hope this information is helpful to you. Please do not hesitate to contact PSAA if we can be of assistance in any way.

Yours sincerely  
Tony Crawley, Chief Executive

**Tony Crawley**  
**Chief Executive**  
Public Sector Audit Appointments Limited