

<b>REPORT TO:</b>	<b>AUDIT SUB-COMMITTEE</b>	<b>AGENDA ITEM: 8</b>
<b>DATE OF MEETING:</b>	<b>16 MARCH 2022</b>	<b>CATEGORY:</b>
		<b>RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>STRATEGIC DIRECTOR CORPORATE RESOURCES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811) <a href="mailto:Kevin.stackhouse@southderbyshire.gov.uk">Kevin.stackhouse@southderbyshire.gov.uk</a></b>	<b>DOC:</b> h/KS/audit/audit fee 2019 20/audit fee final
<b>SUBJECT:</b>	<b>EXTERNAL AUDIT FEE 2019-20</b>	
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 01</b>

## 1.0 Recommendations

- 1.1 That the final external audit fee for 2019/20, as directed by the Public Sector Auditor Appointments, of £56,052 is paid to Ernst and Young LLP.

## 2.0 Purpose of the Report

- 2.1 To consider the fee variation determined by the Public Sector Auditor Appointments (PSAA) for the Audit of the Council's Accounts and Financial Statements for the year 2019/20.

## 3.0 Detail

### Background

- 3.1 In June 2020, the Committee considered a proposal from the Council's Auditors, Ernst and Young LLP (EY) to increase the fee payable to audit the Council's Accounts and Financial Statements for 2019/20.
- 3.2 The Council's scale fee for 2019/20 was set at £37,942. EY submitted proposals for the fee to be increased to £62,558. This was an increase of £24,616 and is detailed in the following table.

<b>Additional Fee for Increase in Client Risk</b>	<b>£</b>	
1 additional significant risk present	1,953	Revenue/expenditure recognition (per Audit Plan)
4 additional other risk present	3,905	Valuation of PPE, Pensions, IFRS 16, Going Concern
1 additional VFM risk present	2,561	Financial Resilience (per Audit Plan)
	<b>8,419</b>	

### **Additional Fee for Increase in Regulatory Compliance**

Increase in overheads	6,815	Includes the increase in the Levy
Additional property valuation requirement	7,265	Specialists to support audit of PPE - per asset base
Additional Pension requirements	1,251	Specialists to support audit of actuarial assumptions

15,331

**Additional fee for client readiness and tech**

Quality of working papers and response from team	<u>866</u>
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**Total Additional Fee (including additional levy)** 24,616

- 3.3 In principle, the increases above are not just specific to the Council but are relevant across the sector due to an increase in and strengthening of, accounting standards.
- 3.4 Auditors have been keen to express that since the procurement exercise in 2017, the requirements on them have increased due to these standards, together with the changing landscape in local government.
- 3.5 This has meant additional testing to provide the relevant assurance, together with additional work on assessing the financial resilience of local authorities.
- 3.6 The Committee in June 2020, resolved not to pay any additional amounts to EY over and above the scale fee that was included in the Contract.
- 3.7 Consequently, as no compromise could be found between the Council and EY, EY submitted their claim to the PSAA, who are required to review EY's proposal and determine the final fee.

**Revised Fee Submitted and Decision of the PSAA**

- 3.8 Having completed the Audit, the revised fee submitted by EY to the PSAA amounted to £40,635. This was an increase from £24,616 which was reported to the Council in June 2020.
- 3.9 The reasons for this revision were reported by EY to Full Council in February 2021, in their Annual Audit Letter. This stated that:

***We have performed additional work during 2019/20 as a result of Covid-19 and other one-off issues. These are noted below.***

<i>Going Concern (including internal consultations and disclosure review/provisions)</i>	£6,388
<i>Prior Period Adjustment (including required consultations and disclosure review/provisions)</i>	£3,062
<i>Covid-19 risk assessment updates</i>	£3,246
<i>Use of valuation specialists to support the audit of property, plant and equipment</i>	£3,323
<b>TOTAL</b>	<b>£16,019</b>

- 3.10 **The response and decision of the PSAA is appended to this report below.**

- 3.11 This shows that the PSAA have determined that a variation in fee of £18,110 (£22,525 lower than EY submitted) is appropriate for 2019/20.
- 3.12 As the variation has been determined by the PSAA, the Council is required to meet the increased fee under Part 6 of the [Local Audit \(Appointing Person\) Regulations 2015](#).
- 3.13 These provisions give the PSAA, as the Appointing Person, the power to review and vary the final fee.

#### **4.0 Financial Implications**

- 4.1 The total fee payable for 2019/20 is now £56,052. The Council's Budget for Audit fees is the PSAA scale fee of £37,942. In recognition of the additional costs facing local authorities, the Government are providing additional funding to the sector for the financial years 2021/22 to 2024/25 inclusive.
- 4.2 The Council's allocation for 2021/22 is £19,599, which can be used to meet the cost (£18,110) of the fee variation. Allocations for future years are still to be determined.
- 4.3 It is anticipated that there will be a similar process to vary the scale fee for auditing the Accounts and Financial Statements for 2020/21.

#### **5.0 Corporate Implications**

##### **Employment Implications**

- 5.1 None

##### **Legal Implications**

- 5.2 None

##### **Corporate Plan Implications**

- 5.3 None

##### **Risk Impact**

- 5.4 None.

#### **6.0 Community Impact**

##### **Consultation**

- 6.1 None required

##### **Equality and Diversity Impact**

- 6.2 None

##### **Social Value Impact**

- 6.3 None

## **Environmental Sustainability**

6.4 None

### **7.0 Background Papers**

None