

Hambleton District Council

Report To: Audit, Governance and Standards Committee

Date: 23 March 2021

Subject: **Statutory Auditor Report on the 2019/20 Audit and the Council's Financial Report – Statement of Accounts - 2019/20**

Portfolio Holder: Governance
Councillor Mrs I Sanderson

Wards Affected: All Wards

1.0 Purpose and Background

- 1.1 The purpose of this report is to update Members on the position of the
- statutory auditor report – Audit Results Report – and the Council's financial report for 2019/20.
 - external audit scale fees and fee variations
- 1.2 In October 2020 the Statutory External Auditors report on the 2019/20 Audit and the Council's Financial Report were presented to Audit, Governance and Standards Committee where at that stage Members approved that the Chairman of the Committee be given delegated authority to:
- (1) accept the 'Audit Results Report – IAS 260' presented to the Audit, Governance and Standards Committee for the 2019/20 audit as prepared by Ernst & Young LLP (EY) attached at Annex A to the report;
 - (2) approve the Management Representation Letter which is required to be signed by the Council's Director of Finance and Commercial, acting in the capacity of s151 Officer; and
 - (3) approve the audited Statement of Accounts for 2019/20 at Annex C of the report
- 1.3 However, the Council's Statement of Accounts were never signed off due to a significant change that External Audit requested during November 2020, which has resulted in this report and the Statement of Accounts – 2019/20 being brought back to this meeting.

Change to the Statement of Accounts 2019/20

- 1.4 External Audit – Ernst and Young LLP (EY LLP) - raised that Thirsk & Sowerby Swimming Baths Charity (TSSBC) should be accounted for as a separate entity and not be included in the transactions of the Council's Accounts. The Council has agreed that this is the correct approach and therefore the accounts have been revised to include TSSBC in Group Accounts and the Prior Year Adjustment statements have been completed
- 1.5 Members should note that Statement of Accounts 2019/20 have been prepared on the same consistent basis in previous years and it has not previously been recognised that Group Accounts were required for Thirsk & Sowerby Swimming Baths Charity.

1.6 In October 2020, the External Auditor had until 30 November 2020 to finalise the Council's accounts in line with the change in the regulations due to the Covid-19 pandemic. For transparency purposes, the Council has clearly indicated on its website that further work is ongoing in relation to the accounts and that the audited 2019/20 final Statement of Accounts will be finalised at this committee. The wording on the website is as follows:

"External auditors are responsible for carrying out an audit of our annual statement of accounts and reporting whether, in their opinion, they present a "true and fair view" of the financial position of the Council and provides a summary of the principal matters arising from the audit.

The external audit of the draft statement of accounts for the year ended 31 March 2020 has not yet been completed by our external auditors, EY LLP, due to the finalisation of their audit work in relation to Group Accounts and the associated prior year adjustments. This situation is allowed for by Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015, as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, both can be found here:

- [Accounts and Audit Regulations 2015 Regulation 10, paragraph \(2a\)](#)
- [Accounts and Audit \(Coronavirus\) \(Amendment\) Regulations 2020 No. 404](#)

Therefore, this notification explains, as per Regulation 10 paragraph (2a), that we are not yet able to publish our audited 2019/20 final statement of accounts in line with publication date of 30th November 2020, as per paragraph (1). The Audit, Governance and Standards Committee will consider the results of the 2019/20 audit at its meeting on Tuesday 23 March 2021, after which we will publish the final audited accounts."

1.7 At this stage the Statutory Auditor Report - EY's Audit Results Report - is not yet complete due to EY LLP requesting, as a result of their final internal consultation process, the Council to carry out a further independent review in relation to the Value for Money Opinion. Therefore, the Statement of Accounts 2019/20, the Annual Governance Statement along with the Audit Results Report and Letter of Representation will be brought back to the next meeting of Audit, Governance and Standards Committee when the independent review has been concluded and the Audit Results Report finalised.

1.8 The Council's website will be updated to reflect the revised date when the Committee will receive the final audit opinion on the 2019/20 Statement of Accounts and the Council's arrangements on Value for Money (to secure economy, efficiency and effectiveness in the use of resources) which will be at the next appropriate meeting.

1.9 The Statement of Accounts 2019/20 can be viewed on the website at the following link:
<https://www.hambleton.gov.uk/downloads/file/104/statement-of-accounts-2019-20>

External Audit scale Fees and Fee Variations

- 1.10 National audit appointment arrangements were used to appoint EY as the Council's external auditors as a result of a national tender exercise. EY LLP was appointed Hambleton District Council's auditor for £31,381 per annum where the contract is from 2018/9 for 5 years. In 2017/18 the cost was £40,754. It has become apparent during 2019/20 that due to the multiple pressures and challenges which have arisen nationally in 2018/19 audits an increase in the number of proposed fee variations required for additional audit work has occurred. Fee variations occur due to the increased complexities of the activities that Councils are undertaking e.g. the creation of third-party vehicles that involves group account resulting in audits taking more time and hence the increased cost.
- 1.11 The 2019/20 audit fee has been set by the Public Sector Audit Appointments and hence due to the current national issues that are arising the Audit, Governance and Standards Committee needs to be aware that the Public Sector Audit Appointments Limited are working with the auditors to address the issues of a planned timetables and any likely fee variations. EY LLP 'UK Government and Public-Sector Assurance Leader' wrote to the Council during February 2020 on this issues and therefore local discussions have occurred where EY have proposed a fee increase for 2019/20 of £57,125.
- 1.12 The Council did not accept this fee increase based on the fact that the appointment was made as a result of the Public Sector Audit Appointments tender process. EY LLP provided the Public Sector Audit Appointments with their assessment of the fee at £57,125, however since then it should be noted that there have been further changes to the audit scope because of Covid-19 and additional work in response to issues arising during the audit. This increase of work on the proposed fee, EY LLP will raise with management before agreeing the final position. The Council will consider this in due course at the appropriate time.
- 1.13 In February 2021, Public Sector Audit Appointment wrote to the Council and confirmed that fee variations (i.e. additional fees payable for additional audit work) have been more prevalent in recent years reflecting the increasingly challenging regulatory requirements placed on all auditors. They carried out a review of 2018/19 approved fee variations at £47,933 with a view to identifying work/fees which represent ongoing audit requirements. It is timely for additional fees relating to recurrent work to be reflected in the scale fee of the audited body concerned at the earliest opportunity.
- 1.14 Following the review, Public Sector Audit Appointments propose that the scale fee for 2021/22 for this Council will remain the same as the scale fee for 2020/21 at £31,381. This conclusion was reached by Public Sector Audit Appointments as they "...are satisfied that there was no recurring element to any fee variations that were approved."
- 1.15 Public Sector Audit Appointments will be undertaking a similar exercise to assess 2019/20 approved fee variations when sufficient information is available. At that time the Council will be informed whether or not there is a proposal to incorporate ongoing elements of any fee variations into the Council's scale fees at the earliest opportunity.

- 1.16 At this stage it should be noted that the Redmond Review was published on 8 September 2020, which is an independent review, led by Sir Tony Redmond at the invitation of the Ministry of Housing, Communities and Local Government. It considered the effectiveness of external audit and transparency of financial reporting in local authorities. The final report makes a number of recommendations.
- 1.17 Ministry of Housing, Communities and Local Government (MHCLG) has recently indicated in its response to the Redmond Review on 17 December 2020 that it may amend the local audit regulations to provide more flexibility for setting and amending fee scales for opted-in bodies. This may allow Public Sector Audit Appointments to incorporate 2019/20 additional fees for ongoing audit requirements into scale fees more quickly than is possible currently, enabling scale fees to be more up-to-date and reducing the variable element of audit fees.
- 1.18 Therefore, in the middle of February 2021, Public Sector Audit Appointments has consulted recently on changes to fee variations arrangements, with proposals for introducing a new approach for national variations where changes in audit requirements relate to the conduct of all or most audits and where a standard cost can reasonably be estimated across groupings of bodies. The consultation also set out a proposed increase in the fee rates for additional work.
- 1.19 Given the overall positive response to the consultation, Public Sector Audit Appointments has resolved to implement the proposed changes. As a result:
- a programme of research is under way to consider the likely impact on audit work and fees of some expected changes in audit requirements. They will consult opted-in bodies and other stakeholders on proposals where we identify changes for which a national approach would be appropriate;
 - the new approach to national variations will apply for the first time in relation to audits of 2020/21 financial statements and value for money arrangements; and
 - all variations - both national and local - arising in relation to audits of 2020/21 financial statements and value for money arrangements will be calculated in accordance with a new rate card reflecting increased hourly rates for different categories of audit staff.
- 1.20 Public Sector Audit Appointments are very conscious that fee variations pose a number of challenges for audited bodies and hope that the new approach outlined will make a positive and welcome difference compared to current arrangements. The implication for the Council is therefore that the fees for the external audit may vary for the 2020/21.

2.0 Risk Analysis

- 2.1 There are no risks associated with approving this report.

3.0 Recommendations

- 3.1 It is recommended that the Committee: -

- 1) notes the statutory auditor report on the 2019/20 audit and the Council's financial report – Statement of Accounts – 2019/20 will be presented at the next appropriate meeting; and

2) note the external audit scale fees and fee variations.

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Background papers: None

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