

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

ACCOUNTS 2019/20 UPDATE REPORT

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1. To update the Audit Committee on the changes to the Accounts process for the 2019/20 Accounts due to the Coronavirus emergency.
- 1.2. To seek approval for the proposed course of action as outlined in the report.
- 1.3. To inform the Committee of the Public Sector Audit Appointments approach to the setting of Audit fees and the proposed fees for the audit of the 20/21 accounts.

2. BACKGROUND INFORMATION

- 2.1 The production and audit of the Council's annual statement of accounts is a statutory process. It must be completed within a set timescale. The legislation which set out the timescale was the Accounts and Audit Regulations 2015. This set out that the draft accounts had to be approved by the council's Chief Financial Officer (CFO) and published by 31st May each year. Following the publication of draft accounts a public inspection period had to take place, incorporating the first 10 working days of June. The accounts had to be audited and a final version published by 31st July each year.
- 2.2 The form of the accounts is prescribed by CIPFA's Accounting Code of Practice. For 2019/20 this included additional disclosures relating to Leases.
- 2.3 Due to the Coronavirus Pandemic a number of changes have been made to the requirements. See Appendix 1 for timetable.
- 2.4 The council, like most of the sector, utilises the services of Public Sector Audit Appointments (PSAA) to appoint its external auditors. PSAA recently published the scale of fees for the audit of the 20/21 accounts (Appendix 2).

3. OPTIONS FOR CONSIDERATION

- 3.1 The legislation relating to the timescale for the production and audit of the accounts has been amended for this year in light of the Coronavirus Pandemic. The draft accounts must now be produced by the 31st August. It must then be audited by 30th November 2020. The inspection period must begin on or before 1st September.
- 3.2 There have been some changes to the requirements of the code of practice. The main change affecting the council is that the implementation of IFRS 16 Leases has been postponed.
- 3.3 PSAA recently announced the fees for the audit of the council's accounts 2020/21 will be £80,186. This is the same base fee as 2019/20. However, the agreement negotiated by PSAA allows for local discussions between audited bodies and auditors which may lead in some cases to ongoing adjustments to individual scale fees as well as to one-off variations. Mazars are appointed by PSAA as External Audit providers for North Lincolnshire for the accounting periods 2018/19 – 2022/23.

4. ANALYSIS OF OPTIONS

- 4.1 The council could postpone production of the draft accounts until the end of August however it is proposed to only postpone by one month until the end of June. Much of the work is already complete and there is little benefit to a further delay. Completion by the end of June will also allow the draft accounts to be considered at the Audit Committee meeting on 8th July.
- 4.2 It is further proposed that the inspection period will begin on 1st September. This is also when the audit of the accounts will commence.

5. FINANCIAL AND OTHER RESOURCE IMPLICATIONS (e.g. LEGAL, HR, PROPERTY, IT, COMMUNICATIONS etc.)

- 5.1 Not applicable.

6. OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)

- 6.1 Not applicable.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

- 7.1 Not applicable.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 Not applicable.

9 RECOMMENDATIONS

- 9.1 That the Audit Committee note the changes to the closure of accounts timescales.
- 9.2 That the Audit Committee note the changes to the accounting and disclosure requirements.
- 9.3 That the Audit Committee approves the proposed draft accounts completion date of 30th June 2020.
- 9.4 That the Audit Committee note the proposed scale of External Audit fees and the approach of the PSAA to the setting of fees.

DIRECTOR: GOVERNANCE AND PARTNERSHIPS

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Background Papers used in the preparation of this report

- Accounts and Audit Regulations 2015
- The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020
- CIPFA Accounting Code of Practice

Appendix 1

Accounts publication timescales

	Current Legislation	2020 1 yr amendment	NLC Proposal
Year-end	31/03/2020	31/03/2020	31/03/2020
Draft Accounts publication date	31/05/2020	31/08/2020	30/06/2020
Public Inspection (20 working day period)	To include the first 10 working days of June	On or before 01/09/2020	01/09/2020
Audited accounts published	31/07/2020	30/11/2020	30/11/2020

APPENDIX 2

Public Sector Audit Appointment's approach to fees

PSAA's position is unusual because, as the appointing person for principal local authorities, the company is required to set a scale of fees spanning more than 480 audits, each of which is unique, reflecting differing levels of size, responsibility, complexity, capacity, capability, risk, etc.

The company's current scale of fees reflects the continuation of a methodology developed by the Audit Commission during its tenure. It is intended to reflect a good representation of the risks associated with the conduct of each of the individual audits within PSAA's jurisdiction, assuming the timely production of draft accounts and working papers of an appropriate standard. However, PSAA recognises that every fee within the scale is subject to a margin for error and is also susceptible to change over time. Accordingly, the company's arrangements in relation to fees are designed to include a number of checks and balances to enable the scale to be adjusted as and when appropriate. These include:

- i) Placing the extant scale of fees at the heart of any tender process and inviting suppliers to express their bids as a proportion of the current scale;
- ii) Pooling winning firms' bids so that the fees of individual bodies are not linked to the bid prices of the individual firm that is appointed as their auditor;
- iii) Consulting with bodies, as appropriate, when firms exercise their right to submit proposals to charge additional fees for additional audit work over and above that assumed in the relevant scale fee;
- iv) Similarly consulting with bodies when firms submit proposals to amend the scale fee of an individual body to reflect an ongoing change to the level of audit work required.

Each of these arrangements is discussed in more detail below.

i) Linking tender prices to the extant scale of fees

When PSAA goes out to tender for audit services, as it did most recently in 2017, it provides suppliers with details of the then current scale of fees and invites firms to price their bids by reference to that scale. This is a vital opportunity for firms to bring their own experience and judgement to bear about the reasonableness of current scale fees in the context of current and expected future market conditions and risks. If the firm considers the current scale to be generous, it can bid at say, 70 or 80% of scale. Conversely, if current fees are felt to be too low, the firm can bid at say, 120 or 130% of scale. PSAA does not impose any parameters in this process - each firm is completely free to reflect its own considered judgement.

Following a rigorous evaluation of tenders, the contracts awarded to successful suppliers reflect the specific price at which each individual firm has bid.

ii) Pooling firms' costs

In setting the overall scale of audit fees, PSAA has regard not only to the payments which will be due to firms under the contracts awarded but also the need to fund PSAA's own costs incurred in carrying out its functions - principally letting and managing contracts, appointing auditors and setting a scale of fees.

When re-setting the fees of individual bodies within the scale following a procurement, PSAA does not reflect the specific costs of the particular audit firm appointed to the body. Rather it applies average costs, taking into consideration details of all the contracts awarded to successful suppliers – with the result that, for example in 2018/19, all bodies received the same proportionate fee adjustment. This shares the risk of price variations between firms across the system and also avoids the need to vary a body's scale fees because it has been allocated a new auditor.

iii) Charging for additional audit work

The nature of an audit is such that it may be necessary for an auditor to carry out more audit work than has previously been required or planned. PSAA has the power to determine the fee above or below the scale fee where it considers that substantially more or less work was required than envisaged by the scale fee. In such circumstances, the auditor may therefore be entitled to charge for the additional work depending upon the specific drivers which have given rise to it. If, for example, additional work arises because the auditor has not conducted the audit in accordance with expected standards, the auditor must bear the cost. Alternatively, if additional work is necessary because the local body has not met its obligations to deliver accounts and working papers which enable the auditor to reach the required level of assurance, the auditor may be entitled to propose a fee variation to reflect the scale of the work concerned.

Additional work may also be required as a result of the introduction of new accounting or auditing standards, or new regulatory requirements. Where these have arisen after bids have been submitted and could not reasonably have been foreseen, the auditor will usually be entitled to propose an appropriate fee variation.

It is important to emphasise that the process for approving one-off fee variations (and/or ongoing scale fee adjustments - see para 4 below) is itself subject to careful checks and balances. Auditors are required to discuss any relevant proposals with appropriate representatives of the body concerned. All such proposals are subject to approval by PSAA. In making any submissions to PSAA, auditors are required to confirm that proposals have been discussed with the body and to indicate whether or not they have been agreed by the body. In turn, PSAA will consider the legitimacy and reasonableness of the proposals and advise the parties accordingly.

iv) Amendments to scale fees

The vast majority of fee proposals submitted by auditors in respect of additional audit work are limited to one-off fee variations. In some cases it is apparent that this does not reflect possible longer term implications. This is an important conversation which will sometimes alert the body to potential ongoing work and expected further variations which can be avoided by the body taking additional measures or taking other remedial actions.

In other circumstances it will highlight the need to adjust the scale fee going forward so that the additional work concerned is properly reflected as a recurring requirement.

By routinely working through longer term implications and engaging in constructive discussions, bodies and firms can play a critically important role in helping PSAA to ensure that the scale of fees is subject to continuous review and, where appropriate, updating.