



**Audit and Standards Advisory  
Committee**  
20 January 2020

**Report from the Director of Finance**

**NOTE ON PROPOSED ADDITIONAL AUDIT FEES 2019-20**

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b>	N/A
<b>No. of Appendices:</b>	N/A
<b>Background Papers:</b>	N/A
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**1.0 Purpose of the Report**

- 1.1 Prior to 2018/19, the council's external auditors were KPMG who had been appointed by the audit commission (following closure of the Audit Commission the contract was novated to Public Sector Audit Appointments (PSAA)). This contract reduced costs to the council and as a result of the new PSAA audit appointment process local authorities nationwide benefited from a reduction in audit fees in the order of 55% compared with fees in 2012.
- 1.2 For the five financial years commencing 1 April 2018, the audit committee agreed that the council should appoint PSAA to procure an external auditor for the council to benefit from the economies of scale and better accountability arising from PSAA managing contracts collectively on behalf of local government PSAA appointed Grant Thornton as the council's external auditor for this period. This contract has saved the council a further £50k comparing the 2017/18 and 2018/19 audits, on top of the saving detailed in the previous paragraph.
- 1.3 Not all the work that external auditors may have to carry out is within the scope of the agreed fees. In such cases, the external auditors may choose to charge additional fees. However, these additional fees are subject to scrutiny by PSAA who have to agree the fees before they are paid. This acts to consolidate skills in managing external audit contracts across local government, and helps ensure a consistent approach to levying additional fees across the sector.

1.4 Due to additional requirements by their regulator, Grant Thornton are proposing additional fees for the 2019-20 audit.

## 2.0 Recommendations

2.1 The Committee note the additional fees proposed by Grant Thornton.

## 3.0 Detail

3.1 Grant Thornton have stated that they are proposing an increased audit fees to pay for additional audit work they have planned to address enhanced requirements placed upon them by the Financial Reporting Council (FRC), their regulator.

3.2 The FRC have increased the standard that they require for all audits from 'acceptable but with improvements required' to 'acceptable with limited improvements required'. This means that, where the FRC reviews the auditor's work, the FRC will be less tolerant of mistakes in audits that would require improvement. Grant Thornton proposed fees include the cost of additional work in the audit, to ensure that it meets this standard.

3.3 In addition, to address the higher standard, Grant Thornton plan to reduce the materiality level, which will mean further work as additional items will need auditing in more depth. This will also increase work for the council in demonstrating to the auditors that items are accurate to the required level in the Statement of Accounts. The changes in materiality levels have not been formally calculated by Grant Thornton yet, but is estimated to be as follows:

<b>Amount</b>	<b>2018/19</b>	<b>2019/20 estimate</b>
Materiality for the financial statements	£20m	£16.2m
Performance materiality	£15m	£12.2m
Trivial matters	£1m	£0.8m

3.4 The FRC wants all auditors to improve their audit challenge on Property, plant and equipment audit. Grant Thornton plan to address this for the 2019/20 audit by increasing the amount of work done on auditing and appointing their own external valuer to provide assurance that the accounts meet the appropriate standard

3.5 Pensions are another area where the FRC wants audits to increase the quality of their work. Grant Thornton plan to address this with increased levels of sampling, additional levels of challenge and explanation sought, which will involve additional work by the audit team.

3.6 Grant Thornton are also planning additional work on the Group Accounts to satisfy the FRC. This will involve additional review of the audits of the council's subsidiaries and of the consolidation process.

3.7 The auditors are required to audit the council's response to new audit standards. The Code of Practice requires leases to be reported under the new IFRS 16 standard from 2020/21, but also requires that the council disclose the

expected impact of IFRS 16 on the accounts in the 2019/20 accounts. The auditors plan additional audit work for this, and have included this in their additional fees.

3.8 The proposed additional fees are as follows:

<b>Area</b>	<b>2019/20</b>
Increased challenge and depth of work	6,500
Materiality	3,500
PPE – additional audit work	4,500
PPE Valuation – cost of auditor’s expert	5,000
Pensions	4,000
Group Accounts	4,000
New Standards / developments/new ledger	3,000
<b>Total including valuer</b>	<b>30,500</b>

3.8 These fees, totalling £30,500 require agreement by PSAA before they are paid. These are on top of the £153,684 fee for the statutory accounts audit for 2019/20, making a total for the audit of the statutory accounts of £184,184. Grant Thornton have also stated that should further risks arise in the audit there may be further additional fees.

#### **4.0 Financial Implications**

4.1 The financial implications of this report are the additional fees detailed in the previous section.

#### **5.0 Legal Implications**

5.1 There are no legal implications arising from this report.

#### **6.0 Equality Implications**

6.1 There are no equality implications arising from this report.

#### **7.0 Consultation with Ward Members and Stakeholders.**

7.1 Not applicable.

**Report sign off:**

**Deputy Director of Finance**  
Daniel Omisore