

HUNTINGDONSHIRE DISTRICT COUNCIL

Title: Change in External Auditor and Audit Fees 2015/16
Meeting/Date: Corporate Governance Panel – 16th September 2015
Executive Portfolio: Executive Councillor for Resources: Jonathan Gray
Report by: Head of Resources: Clive Mason
Ward(s) affected: All

Executive Summary:

As a consequence of:

- the abolition of the Audit Commission's public audit responsibility,
- the re-tendering of the Audit Commission "private sector provider" external audit contracts on the 31st March 2015, and the
- transfer of responsibility for the appointment of external auditors to each local authority from 2017,

the Audit Commission has appointed Ernst & Young as the Councils External Auditor for the two years 2015/16 and 2016/17. As well as the auditor being there to provide external oversight of the Councils governance arrangements, they are also required to audit the Councils Annual Financial Report and certain Grants and Returns.

The reported 2015/16 scale fee for this service is £71,372, a decrease of 20.1% compared to the previous years Audit Commission scale fee. However, there is the potential for an increase in the final audit fee over the scale fee as a consequence of the time involved in audit queries, additional audit checking or even because of a change in auditor (i.e. difference in interpretation of auditing standards between the new and previous auditor).

Recommendation:

That the Panel considers the report and comments in respect of the change in Auditor and the audit fee for 2015/16.

1. PURPOSE

- 1.1 To inform the Panel of a change in auditor and the scale fees for 2015/16.

2. BACKGROUND

The External Audit Environment

- 2.1 External audit of local authorities in England had been the responsibility of the Audit Commission since it was established in 1983. Audit Commission powers were set out in the Audit Commission Act 1998.
- 2.2 In August 2010, the Department for Communities and Local Government (DCLG) announced plans to put in place new arrangements for auditing England's local public bodies. Proposals to abolish the Audit Commission were contained in the Draft Local Audit Bill in 2012, which followed a consultation paper, the Future of Local Public Audit, published in 2011. The government's key aim is, as far as possible, to bring the public sector audit regime into line with the private sector.
- 2.3 Under the proposals, local authorities would gain the right to choose their own auditors, and a new decentralised audit regime covering local government, police and health bodies would be established. The Financial Reporting Council would become the primary regulator within the new framework and the National Audit Office would prepare and maintain the Code of Audit Practice and associated guidance to auditors.
- 2.4 Local authority external audit in England was split between the Audit Commission's own audit practice, District Audit and the private sector. However, during 2012 the District Audit service was discontinued and all local authorities who had previously had District Audit were appointed a private sector auditor for a period of five-years.

External Audit and Huntingdonshire District Council

- 2.5 Huntingdonshire District Council has for a number of years had a private sector auditor. Up until 2009/10 this was Grant Thornton LLP and from 2010/11 until 2014/15 PricewaterhouseCoopers (PwC).
- 2.6 As a consequence of the new local authority audit regulations, all local authorities will be permitted to appoint their own auditor from 2017/18 onwards. However, the contracts for private sector auditors that had previously been appointed by the Audit Commission had an end date of the 31st March 2015 (i.e. their last audit year being 2014/15). Consequently this means that there is a two-year gap before individual local authority appointments can take place (namely 2015/16 and 2016/17); as PwC did not bid for this contract our appointed auditors for the two intervening years is to be Ernst & Young (EY).

3. ERNST & YOUNG

- 3.1 EY commenced engagement with officers in April 2015 following their appointment; a copy of their Annual Audit and Certification Fees 2015/16 letter is attached at Appendix 1.

- 3.2 The total cost of external audit for 2015/16 audit is £71,372, a reduction of £17,989 (20.13%) compared to 2014/15. However, the fee is split between the fee applicable to the code fee (the audit of the accounts/being our appointed auditor) and that of certification of claims and returns. **Table 1** shows that the saving has been largely due to the reduction in the code fee (25.0%).

Table 1	Change in Indicative Audit Fee			
	2014/15	2015/16	Reduction	
	£	£	£	%
Code Fee	70,981	53,236	17,745	25.00
Certification of claims and returns	18,380	18,136	244	1.33
Total	89,361	71,372	17,989	20.13

Fee assumptions

- 3.3 EY have noted that the audit fees in their letter (Appendix 1) are based on certain assumptions that would need to be met to maintain the fees at this level. In respect of the:
- 3.3.1 **Code Fee**; the assumptions EY have made are shown in **Table 2** below which is shown along with relevant mitigations.

Table 2		Assumption EY have made in respect of the Code Fee
	EY Assumption	HDC Mitigation
1	The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year.	<ul style="list-style-type: none"> As noted by PwC in their ISA 260 report elsewhere on the agenda, their audit of the 2014/15 accounts has been completed in line with relevant regulations and standards. The accounts produced by the Council are themselves produced in line with statutory regulations and standards. Officers undertake relevant training to ensure that they are up to date in respect of the most recent developments.
2	EY are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards.	Internal audit work will be completed in line with relevant internal audit regulations and standards, and pertinent resource allocations.
3	The financial statements will be available to EY in line with the agreed timetable.	<ul style="list-style-type: none"> The timetable will be agreed between EY and the Council. There are statutory reporting deadlines and these have been complied with since 2011/12. Resources are aligned to ensure that agreed deadlines are achieved.

4	Working papers and records provided to EY in support of the financial statements are of a good quality and are provided in line with the agreed timetable	<ul style="list-style-type: none"> • Working papers were fundamentally reviewed and updated for 2012/13 and there have not been any adverse comments in respect of working papers since that date. • Working papers follow a “tried-and-tested” approach that the Responsible Financial Officer has developed over 10 years and 3 different auditors (with no adverse comments).
5	Prompt responses are provided to EY’s draft reports	<ul style="list-style-type: none"> • In respect of the accounts and dependent on the complexity of the audit query, every endeavour is made to answer audit queries within 2 working days. • With regard to draft reports, again responses will be provided promptly within agreed timescales.

3.3.2 Considering the above it should be noted that on occasions professional disagreement can arise between the accountants and the auditors because of the interpretation of accounting standards and regulations. Only following negotiation between the two parties is there agreement either because the accounts have been amended or the auditor has subsequently reconsidered their query are deemed it not material. However such negotiation can unfortunately attract an additional audit charge because of the audit time involved in sorting out the audit query and any additional audit work required.

3.3.3 **Certification of claims and returns;** the assumptions EY have made in respect of the indicative fee are:

“.....based on the expectation that an audited body is able to provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timescales.”

3.3.4 In mitigation, the main claims and returns that were audited in the last year were:

- i. Housing Benefits Subsidy,
- ii. Council Tax Benefits Subsidy,
- iii. National Non-Domestic Rates

3.3.5 With regard to the claims and returns in (i) to (iii) above, all are ICT based systems and it is fair to say that the audit primarily reports on the services outcomes/determinations that are drawn from those systems. However, members should be aware that there is a risk that if information is input into the system incorrectly, and this is identified in the audit review, then additional testing would be required attracting an additional audit fee. A recent example locally is in respect of Housing Benefits, as reported to members in March 2015 (Item 5, entitled “External Audit Grant Certification 2013/14).

Risk from change in auditor

- 3.4 Members should note that a change in auditor does pose a risk of higher cost because, even though audits are conducted to the same auditing standards, different auditors do have:
- differences in interpretation of those standards and therefore their application,
 - different considerations in respect of risk facing an organisation, and
 - views in respect of governance.

4. LINK TO THE CORPORATE PLAN

- 4.1 The Policy will support the achievement of the Corporate Plan requirement of “Ensuring we are a customer focused and service led council” by “becoming more business-like and efficient in the way we deliver services”.

5. CONSULTATION

- 5.1 None

6. LEGAL IMPLICATIONS

- 6.1 Not direct legal implications.

7. RESOURCE IMPLICATIONS

- 7.1 The 2015/16 budget for audit fees is £90,000.
- 7.2 Because the 2014/15 audit is not yet complete, 2013/14 is the last complete year that the final audit fee is known. The increase from scale fee to final fee for both the Code audit and the Certification of claims & returns audit was 19.6% and 51.0% respectively.
- 7.3 If the 2015/16 audit scale fee increased by rates similar to those that occurred in 2013/14 (paragraph 7.2), the final audit fee would be £91,063; consequently the budget would be marginally exceeded.

8 REASONS FOR THE RECOMMENDED DECISIONS

- 8.1 So members have the opportunity to comment in respect of the Councils appointed auditor and on the scale fee.

9. LIST OF APPENDICES INCLUDED

Annex 1: Copy of letter from Ernst & Young re. Annual Audit and Certification Fees 2015/16 (dated 21 April 2015).

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