



Annual Audit Plan – Update on External Audit Fees

Report by Gary Fairley Chief Officer Corporate Solutions

Report for Noting

1 Recommendations

Audit Committee is asked to note this update on the position in respect of external audit fees for the year.

2 Purpose of Report/Executive Summary

This report updates Audit Committee of the final position regarding audit fees for the year 2019/20.

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Report Contact:

Gary Fairley

gary.fairley@midlothian.gov.uk

3 Background

At its meeting on 10 March 2020 the Audit Committee were presented with the Annual Audit Plan for the year ended 31 March 2020 which set out at Appendix E the indicative position with audit fees for the year as follows:-

Audit Fees	2019/20	2018/19
Component of fee:		
Auditor remuneration –expected fee	£144,550	£141,260
Additional audit procedures	£TBD	£16,090
Audit Scotland fixed charges:		
Pooled costs	£14,140	£13,700
Performance audit and best value	£64,560	£63,730
Audit support costs	£8,740	£8,870
Total fee	£TBD	£243,650

The report noted that the expected fee for each body, set by Audit Scotland, assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and meets the agreed timetable for the audit.

It also noted that the expected fee assumes there is no major change in respect of the scope of work in the year and that fees can be agreed between the auditor and audited body by varying the auditor remuneration by up to 10% above the level set, for example, where significant local issues require additional work to be undertaken.

EY had outlined areas of additional audit focus this year which were likely to have an impact on the expected fee, including around the Council's review of loans fund accounting, PPP accounting, accounting for IFRS 16 and their follow up of findings within the Best Value Assurance Report. The audit plan noted that any fee variation would also depend on the progress made by the Council in addressing the matters raised in the 2018/19 Annual Audit Report and Best value Assurance report and that where further additional work is required, fees will be agreed with management and reported to the Audit Committee in the 2019/20 Annual Audit Report.

As outlined by EY in their Annual Audit Report, given the circumstances and to be pragmatic and flexible this year EY delayed the planned Best Value Follow up to the next financial year, subject to the planning arrangements being agreed for the 2020/21 audit. Accordingly the indicative additional fees of £12,600 associated with this work, which would have brought the total fee to £244,590, has also been deferred.

The addendum to the Annual Audit Plan presented to Audit Committee on 22 June 2020 noted that the changes to the Council and the associated risks to the audit as outlined in the addendum would have an impact on the audit work, in particular;

- The impact of Covid-19 on the financial statements audit, including a greater use of internal specialists to support our work

on significant and inherent risk areas, in particular the valuation of fixed assets;

- Additional work required around the appropriateness of going concern disclosures in the financial statements and the associated wider scope audit consideration required around financial sustainability; and
- The potential wider impact on the audit driven by the greater potential for audit issues to arise through the yearend audit process, in particular around the accounting for transactions around the yearend and the valuation of yearend balance sheet accounts.

The addendum noted that at that stage there remained uncertainty over the scale of impact of Covid-19 on the financial statements accounting requirements, and key judgements made by management and at that stage it was not appropriate to quantify any impact on fees from additional audit work.

4 Current Position

At the time of presenting the Annual Audit Plan to Audit Committee on 12 October 2020 the fee position for 2019/20 was still to be finalised and accordingly this report sets out the final fee position for the year which is as follows:-

Audit Fees	2019/20	2018/19
Component of fee:		
Auditor remuneration –expected fee	£144,550	£141,260
Additional audit procedures	£50,200	£16,090
Audit Scotland fixed charges:		
Pooled costs	£14,140	£13,700
Performance audit and best value	£64,560	£63,730
Audit support costs	£8,740	£8,870
Total fee	£282,190	£243,650

The total fee is therefore £37,600 higher than previously anticipated with the breakdown as follows :-

Additional procedures arising from the pandemic, to fully reassess planning work and subsequent audit risk identification, significant additional focus on the assessment of going concern by management, additional audit consideration required around the valuation of the Council's share of assets in the Lothian Pension Fund and McCloud and Goodwin development subsequent to the yearend.

£13,200

Assessment of the accounting entries for the Millerhill Waste Plan Financial Model

£7,900

Fixed asset valuation work including specialist time involved in:

- Valuation uncertainty requiring us to designate the valuation of fixed assets as a significant audit risk to the financial statements;
- Resultant involvement of specialist valuers in a sample of valuations;
- Resolving the movement in valuation of Dalkeith Community Campus;
- Resolving queries with City of Edinburgh Council valuers;
- Disproportionate time to resolve valuation queries with internal valuers. £15,800

Procurement. Additional specialist work performed by EY's Forensics team to interrogate and analyse purchase orders and invoices in 2018/19, 2019/20 and the first quarter of 2020/21. £10,300

Assessment of the Loans Fund Review £3,000
 Less Reduced Best Value audit time £(12,600)
£37,600

As outlined in EY's Annual Audit Report, the Best Value Follow Up has been delayed to next financial year, subject to the planning arrangements being agreed for the 2020/21 audit.

The variation in fees will be reported to Audit Scotland for finalisation.

5. Implications for future years

A number of the additional audit procedures carried out this year are expected to be a one off though there will inevitable be additional procedures required in the 2020/21 audit given the significant divergence from the budget as a consequence of the pandemic and also as a consequence of the range of grant schemes administered by the Council in the year.

In respect of the valuation of fixed assets whilst there has been a steady improvement in the approach taken by the internal valuation team, particularly over the last two years, the extent of the additional audit procedures highlights that there is room for further improvement which in turn can reduce the need for additional work by EY. Accordingly the terms of engagement with the internal valuation team will be reviewed and improvements agreed as part of the year end planning arrangements.

As noted above there will be additional procedures in 2020/21 in respect of the best value follow up work.

6 Report Implications (Resource, Digital and Risk)

6.1 Resource

There additional audit fees will result in the budget for these costs being exceeded. Whilst some of the additional work arises as a consequence of the pandemic there is no specific funding from Scottish Government to mitigate this.

6.2 Digital

There are no direct digital implications arising from this report.

6.3 Risk

There are no specific risk arising from this report.

6.4 Ensuring Equalities (if required a separate IIA must be completed)

There have been no changes to policies which require an IIA to be completed.

6.5 Additional Report Implications (See Appendix A)

See Appendix A

Appendices

Appendix A – Report Implications

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Maintaining financial governance is central to demonstrating strong financial management and financial sustainability and it is on these foundations that delivery of the priorities in the Single Midlothian Plan is based.

A.2 Key Drivers for Change

Key drivers addressed in this report:

- ☐ Holistic Working
- ☐ Hub and Spoke
- ☒ Modern
- ☒ Sustainable
- ☒ Transformational
- ☐ Preventative
- ☐ Asset-based
- ☒ Continuous Improvement
- ☐ One size fits one
- ☐ None of the above

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- ☒ One Council Working with you, for you
- ☐ Preventative and Sustainable
- ☒ Efficient and Modern
- ☒ Innovative and Ambitious
- ☐ None of the above

A.4 Delivering Best Value

Effective Financial Governance is a core principal of Best Value.

A.5 Involving Communities and Other Stakeholders

There has been no external engagement in preparing this report.

A.6 Impact on Performance and Outcomes

The arrangements set out in the report do not have a direct impact on performance or outcomes.

A.7 Adopting a Preventative Approach

Maintaining an effective Financial Governance and internal control arrangements is central to the prevention of error and or the risk of fraud.

A.8 Supporting Sustainable Development

No direct impact.