

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

19 JULY 2022

Report of the Director of Finance & ICT

ADDITIONAL EXTERNAL AUDIT FEES 2020-21

1. Purpose

- 1.1 To provide Audit Committee with details of a letter from the Council's external auditor setting out and requesting agreement of additional fees in respect of its audit work on the Council's 2020-21 Statement of Accounts.
- 1.2 For Audit Committee to note the agreement of the Council's Director of Finance & ICT, to the request for additional fees in respect of the external auditor's audit work on the Council's and Pension Fund's 2020-21 Statement of Accounts.

2. Information and Analysis

Background

- 2.1 Full Council opted-in to a sector-led approach to appointing an external auditor on 7 December 2016, approving the use of Public Sector Audit Appointments (PSAA) to undertake the procurement on behalf of the Council. Following this approval, the Council's external auditor, Mazars, was appointed on 14 December 2017.
- 2.2 PSAA is responsible for appointing auditors and setting scales of fees for relevant authorities that have chosen to opt-in to its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts PSAA enters into with audit firms.

- 2.3 PSAA consulted on scale fees for the audit of opted-in bodies, up to and including 2022-23. The Council's external audit fee for 2020-21, agreed by PSAA, is £0.097m, with a fee of £0.028m for the Pension Fund.
- 2.4 Fee variations are determined in accordance with Section 17(2) of the Local Audit (Appointing Person) Regulations. This provides for additional fees to be charged where in PSAA's view, on the basis of information provided by the local auditor it has appointed, the work involved in a particular audit was substantially more than that envisaged by the scale fee set.
- 2.5 Total audit fees, including additional audit fees, have reduced over a number of years, as a result of the Council opting into national procurement.
- 2.6 Additional fees for the 2019-20 audit, billed by an agreed fee variation, were £0.018m for the Council and £0.009m for the Pension Fund.

2020-21 Additional Audit Fees

Council's Statement of Accounts

- 2.7 The Council's external auditor has written to the Council setting out, and requesting agreement of, additional fees in respect of its audit work on the Council's 2020-21 Statement of Accounts, following completion of the audit.
- 2.8 The external auditor's 2020-21 Audit Strategy Memorandum, Audit Completion Report and Annual Auditor's Report proposed additional fees in several areas. The letter attached at Appendix Two to this report confirms the final external audit fees for 2020-21, also setting out those that are of a recurring nature that will again be necessary for the 2021-22 audit.
- 2.9 Additional fees for the 2020-21 audit of the Council's Statement of Accounts are £0.032m for the Council. This comprises additional work in the following areas:
- Value for money commentary- £0.014m
 - Property, plant and equipment valuation - £0.005m
 - Accounting estimates - £0.005m
 - Increased regulatory challenge - £0.004m
 - Pension valuation - £0.003m
 - Covid-19 additional work – £0.001m
- 2.10 In calculating the additional fees, the external auditor has considered the impact of the good work by the Council's team in working closely

with them to complete the audit and the good standard of working papers provided.

- 2.11 The 2020-21 additional fee detailed is subject to PSAA approval in the usual way. As part of this process, PSAA requires the Council's agreement to the additional fees and also requires that they are brought to the attention of Audit Committee and noted. The Council's Director of Finance & ICT confirmed agreement to the external auditor's request for additional external audit fees of £0.032m on 9 March 2022.
- 2.12 PSAA sets fee scales based on the most accurate information available at the time of each annual fee consultation on audit requirements and the work needed to deliver them. Where sufficient information is not available, or it is not possible to establish with reasonable certainty the level of any additional fees needed where substantial extra work is required, these are assessed using the fee variations process.
- 2.13 Current local audit regulations (regulation 17.2) allow PSAA to approve fee variation requests only at individual bodies, for additional audit requirements that become apparent during an audit.
- 2.14 Where changes are relevant and will require additional audit work, the impact during the initial implementation period will be variable depending on the local circumstances and arrangements of individual opted-in bodies.
- 2.15 PSAA has completed a programme of research to consider the likely audit work and fee impact of expected changes in audit requirements. The objective was to consider whether it is possible to determine at a national level the additional audit work and fees needed for new audit requirements.
- 2.16 PSAA sets the fee scale annually and publishes the scale fee for each individual audited body. If the auditor subsequently finds that substantial additional work is required that is not provided for in the scale fee for an individual body, the auditor can propose a fee variation to PSAA. This is set out in the statutory framework for audit fees and variations, in the Local Audit (Appointing Person) Regulations 2015. Regulation 17(2) provides for the auditor to propose to PSAA (as the Appointing Person) that fees should be varied where the work involved in a particular audit is substantially more than envisaged by the appropriate scale. The same applies if the required work reduces – for example if the body no longer needs to produce group accounts.

Fee variation submission

2.17 The reasons for submitting fee variation proposals vary, but typical examples include:

- increased regulator challenge on audit quality resulting in the need for additional work to provide greater assurance on areas such as property, plant and equipment valuations and pension valuations;
- technical accounting issues;
- group accounts;
- the auditor has received an objection from an elector; and
- the working papers to support the annual accounts were of a poorer quality than in previous years.

2.18 Auditors are obliged to have local discussions with individual opted-in bodies about any proposed fee variations. These discussions should take place at the earliest opportunity, and wherever possible the auditors should highlight at the planning stage any additional work which is likely to be required during the audit, including potential fee implications. While it may not be possible to quantify the proposed fee until the work is done, early discussion can help to avoid misunderstandings at a later stage.

2.19 PSAA provides standard fee variation forms for the audit firms to complete cyclically. Auditors are required to:

- state the date the fee variation was agreed with the audited body (or record that it has not been agreed);
- state the date the fee variation was reported to those charged with governance;
- confirm whether a fee variation proposal includes recurring additional work;
- provide narrative/documents to support and explain the fee variation proposal, including why the work was needed and what work was undertaken; and
- provide the amount of auditor time required for the additional work undertaken.

Review process

2.20 PSAA reviews the fee variation proposals submitted, including some or all of the following as applicable:

- confirming that the fee variation form has been completed correctly;
- considering the value of the fee variation and its size relative to other similar fee variations;

- comparing the size of the fee variation to the scale fee to consider whether it is proportionate;
- reviewing the justification (including any supporting workings/documents) provided by the firm to support the fee variation proposal and assessing whether the complexity of the issue and the challenges described are in proportion to the fee variation submitted;
- checking that the work performed meets the requirements as set down in regulations for a fee variation, for example, it is work required under the Code of Audit Practice;
- confirming that the work detailed in the firm's justification is consistent with PSAA's other records, for example, a delay in the issue of an accounts opinion, statement of reasons issued;
- exercising judgement when considering the grade mix used and hours taken (for example, do they appear reasonable);
- considering any specific outputs resulting from the additional work undertaken;
- checking whether the audited body has agreed the fee variation proposal. In the case of claims that are not agreed, PSAA contact the audited body (where possible, the Section 151 Officer) to hear the body's concerns so that they can take them into consideration when we make the fee determination;
- checking that the relevant issues raised in the firm's justification have been reported to those charged with governance (for example in the ISA260 report or Annual Audit Letter);
- checking that the appropriate fee variation value is reported in the Audit Plan / ISA260 / Annual Audit Letter;
- for high value fee variations the following is also undertaken: a PSAA officer will contact the body (normally s151 officer or Director of Finance) to discuss the variation;
- PSAA officers may have a meeting with the firm's audit team and perform a review of the audit file to obtain a better understanding of the additional work; and
- reviewing whether any approved fee variation is one-off or recurring, to assess whether it relates to additional audit work that will be repeated in future audits (for example, pension fund valuations, PPE valuations, group accounts, increased challenge on audit quality). Where PSAA are satisfied that the fee variation is recurring it will aim to include it in the scale fee at the earliest opportunity, which is determined in accordance with the Appointing Person regulations.

Pension Fund's Statement of Accounts

- 2.21 Additional fees in respect of the external auditor's work on its audit of the 2020-21 Pension Fund Statement of Accounts were reported to Audit Committee at its meeting on 22 June 2021, within the Audit Strategy Memorandum for the Derbyshire Pension Fund. These additional fees of £0.006m relate to enhanced procedures on unquoted investments in response to increased regulatory expectations.
- 2.22 On 3 March 2022 the external auditor confirmed that there was no change to these additional fees in respect of its audit of the 2020-21 Pension Fund Statement of Accounts. The Council's Interim Executive Director of Corporate Services & Transformation, as Section 151 Officer, confirmed agreement to the external auditor's request for additional external audit fees of £0.006m in respect of the Pension Fund on 7 March 2022.

3. Consultation

- 3.1 No consultation is required.

4. Alternative Options Considered

- 4.1 Not applicable - the additional fees detailed are acknowledged as being required in respect of the external auditor's completion of its audit work on the Council's and Pension Fund's 2020-21 Statement of Accounts. It is a PSAA requirement of the process for agreeing fee variations that the local authority confirms its acceptance to the external auditor and that any additional fee variations are reported for Audit Committee to note the details.

5. Implications

- 5.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

6. Background Papers

- 6.1 Papers held electronically by Financial Strategy Section, Financial Management & Strategy, Finance & ICT Services.

7. Appendices

- 7.1 Appendix 1 – Implications.

7.2 Appendix 2 – Council Fee Variation Letter

8. Recommendation(s)

8.1 That Audit Committee notes the details of a letter from the Council’s external auditor setting out and requesting agreement of additional fees in respect of its audit work on the Council’s 2020-21 Statement of Accounts.

8.2 That Audit Committee notes the agreement of the Council’s Interim Executive Director of Corporate Services & Transformation, as Section 151 Officer, to the request for additional fees in respect of the external auditor’s audit work on the Council’s and Pension Fund’s 2020-21 Statement of Accounts.

9. Reasons for Recommendation(s)

9.1 The Council Plan values commit to spending money wisely, making the best use of the resources that the Council has.

9.2 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations.

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Implications

Financial

1.1 Referred to in the body of the report.

Legal

2.1 None.

Human Resources

3.1 None.

Information Technology

4.1 None.

Equalities Impact

5.1 None.

Corporate objectives and priorities for change

6.1 The Council Plan values commit to spending money wisely, making the best use of the resources that the Council has.

6.2 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None.

Fee Variation Letter



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Mr Peter Handford
Director of Finance & ICT
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9 March 2022

Dear Pete

Derbyshire County Council, additional external audit fee for 2020/21

Following completion of the audit, we have reviewed the fee for 2020/21. In calculating the additional fee in this letter, we have carefully considered the impact of:

- the good work by your team in working closely with us to complete the audit; and
- the good standard of the working papers provided.

Additional work

In our 2020/21 Audit Strategy Memorandum, Audit Completion Report and Annual Auditor's Report we highlighted proposed additional fees in a number of areas.

This letter confirms the final fees for 2020/21, also setting out those that are of a recurring nature that will again be necessary for our 2021/22 audit. We may also need to respond to further recommendations from our regulator in relation to future audits.

Confirmed fees 2020/21 (Code of Practice audit work only)

Fee variation category	Definition	2019/20	2020/21	Recurrent to 2021/22?
Scale fee		96,524	96,524	Yes
Pension Valuation	Additional work in relation to responding to increased regulatory challenge in auditing the IAS19 pension figures contained within the financial statements.	2,998	2,998	Yes
Increased FRC challenge for a Major Local Audit	Additional work in relation to the increased regulatory challenge from the FRC. e.g. additional levels of review for major local audits (MLAs), further testing undertaken on specific areas (journals, cut-off, estimates), increased scrutiny of information provided by the entity.	3,735	3,735	Yes
PPE Valuation	Additional work in relation to responding to increased regulatory challenge in auditing the PPE figures contained within the financial statements.	5,232	5,232	Yes
VFM commentary	See separate report which sets out the ranges for this work. https://www.psaa.co.uk/additional-information-for-2020-21-audit-fees/	-	14,063	Yes
COVID-19	Additional work in relation to responding to the impact of Covid-19, both on the financial statements and performing of the audit. e.g. risk assessments/arrangement checklists performed, PPE/pensions valuations work undertaken (Emphasis of Matters), audits taking longer due to impact of remote working.	4,899	1,188	No
ISA540	See separate report which sets out the ranges for this work. https://www.psaa.co.uk/additional-information-for-2020-21-audit-fees/	-	4,644	Yes
McCloud/ Goodwin	Additional work in relation to responding to the McCloud legal ruling which had implications for pension schemes.	1,246	-	No
Sub-total		18,110	31,860	-
Total		114,634	128,384	-

The 2020/21 fee detailed is subject to PSAA approval in the usual way and should you wish to discuss our 2020/21 fees, please do not hesitate to contact me. With the PSAA approval process in mind, please would you send me a brief email agreeing the additional 2020/21 fees detailed to help with the PSAA fee agreement process and share this letter with the Audit Committee at its next meeting as confirmation?

Yours sincerely



Mark Surridge

Key Audit Partner For and on behalf of Mazars LLP

Mazars LLP Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD. Registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861. VAT number: GB 839 8356 73