

**Committee Name and Date of Committee Meeting**

Audit Committee – 24 March 2020

**Report Title**

Grant Thornton - Changes to the Audit Market

**Is this a Key Decision and has it been included on the Forward Plan?**

No

**Strategic Director Approving Submission of the Report**

Judith Badger, Strategic Director of Finance and Customer Services

**Report Author(s)**

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**Ward(s) Affected**

Borough-Wide

**Report Summary**

The Council's external auditor, Grant Thornton, have provided a presentation that highlights the key changes being made within the current audit market. The presentation covers the challenges that the external audit function is facing due to the increasing complexity of public sector accounts, pressure from the Financial Reporting Council (FRC) for greater assurance and testing, amid a backdrop of reduced audit fees. As reported to February's Audit Committee, as part of the Grant Thornton Audit Plan, the audit fees for Rotherham MBC's accounts 2019/20 have been increased, as a result of these pressures.

**Recommendations**

1. Audit Committee is asked to note the changes to the audit market, the financial implications to the Council, and the potential implications in the delivery of the Council's accounts.

**List of Appendices Included**

Appendix 1 Grant Thornton Changes to the audit market.

**Background Papers**

Audit Appointment Letter 2019/20

Local Audit and Accountability Act 2014

National Audit Office – Code of Audit Practice

**Consideration by any other Council Committee, Scrutiny or Advisory Panel**

No

**Council Approval Required**

No

**Exempt from the Press and Public**

No

## **Grant Thornton - changes to audit market**

### **1. Background**

- 1.1 As reported to the Audit Committee in February, as part of Grant Thornton's audit plan, the fee for the Council's external audit function 2019/20, has increased from £117k, to £129k. The proposed increase is due to a number of issues such as the Financial Reporting Council putting greater pressure onto the external auditor function to carry out greater assurance and testing, the growing complexity and size of public sector accounts, and the reduce auditor fees available to carry out that audit.

### **2. Key Issues**

- 2.1 The Council's external auditor, Grant Thornton, have provided a presentation that highlights the key changes being made within the current audit market, appendix 1. The presentation covers the challenges that the external audit function is facing due to the increasing complexity of public sector accounts, pressure from the Financial Reporting Council for greater assurance and testing, amid a backdrop of reduced audit fees. As reported to February's Audit Committee, as part of the Grant Thornton Audit Plan, the audit fees for Rotherham MBC's accounts 2019/20 have been increased, as a result of these pressures.
- 2.2 With the increasing level of assurance that the Council's external auditors need to provide, combined with the increased volume of work that this will place on the Council's finance teams, there is a risk to the Council's timely production of the 2019/20 accounts. This risk will be mitigated through effectively planning and resourcing those areas of the accounts that are likely to receive the greatest level of challenge, such as property, plant and equipment (PPE). This area will come under greater scrutiny as Grant Thornton propose to use an external valuer to support their assurance process.

### **3. Options considered and recommended proposal**

- 3.1 Consideration of alternative options was not required.

### **4. Consultation on proposal**

- 4.1 No consultation is required in respect of this report.

### **5. Timetable and Accountability for Implementing this Decision**

- 5.1 No decision which will require implementation is anticipated from this report.

**6. Financial and Procurement Advice and Implications (to be written by the relevant Head of Finance and the Head of Procurement on behalf of s151 Officer)**

6.1 A proposed fee of £129,288 has been set for 2019/20, compared to £117,438 for 2018/19. The fee for 2019/20 is governed by the Public Sector Audit Appointments (PSAA) company set up by the LGA as successor body to the Audit Commission, any change to the final fee will have to be agreed by the PSAA and the Council's Section 151 Officer.

6.2 The Council's external auditors now face significantly greater pressure on to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations. Therefore the audit fee for 2019/20 includes an additional fee of £20,850, this increase has been seen across the sector, not just for RMBC, it is not a reflection on the Council's quality of accounts.

6.3 There are no direct procurement implications arising from the detail of this report.

**7. Legal Advice and Implications (to be written by Legal Officer on behalf of Assistant Director Legal Services)**

7.1 There are no specific Legal implications arising from the report.

**8. Human Resources Advice and Implications**

8.1 There are no Human Resource implications arising from the report.

**9. Implications for Children and Young People and Vulnerable Adults**

9.1 There are no implications arising from the proposals to Children and Young People and Vulnerable Adults.

**10. Equalities and Human Rights Advice and Implications**

10.1 There are no implications arising from this report to Equalities and Human Rights.

**11. Implications for Partners**

11.1 There are no implications arising from this report to Partners or other directorates.

## **12. Risks and Mitigation**

- 12.1 Changes to the Plan and the fee may be necessary if significant new audit risks emerge or Grant Thornton's expectations are not met. Should this be the case, Grant Thornton will first discuss the reason for any change in fee with the Strategic Director of Finance and Customer Services. They will then be brought to the attention of the Audit Committee outlining the reasons for any change.

## **13. Accountable Officer(s)**

Judith Badger (Strategic Director of Finance & Customer Services)

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