

## External Audit Update

### SUMMARY

This report provides the Committee with an update about the external audit arrangements. The key points are:

- Our external auditor EY, have highlighted a delay in finalising the audit work for the 2021/22 accounts
- The Public Sector Auditor Appointments (PSAA) have reduced the 2020/21 additional fee request from EY from £64,993 to £33,946
- The PSAA will be appointing a new external auditor KPMG, to audit accounts from 2023/24 accounts

### RECOMMENDATION(S)

The Committee is asked to:-

- 1) Note the update on various external audit matters

### 2021/22 External Audit

1. Previous reports have highlighted that over the last few years the entire audit sector has been faced with challenges of increasing legislative requirements and shortage of resources (i.e. personnel). Consequently many local authorities have a number of years of accounts yet to be audited. Indeed only 12% (Appendix 2) of local authorities had their 2021/22 accounts signed off by the end of November 2022..
2. For the first time in many years, our auditors EY, are advising that they too will be unable to complete our audit in a timely manner. They are planning to have resources in place during the next 3 months but cannot commit to completing their work in time for the March Authority meeting.
3. The main implications are that:
  - The external audit report and the approval of the audited 2021/22 accounts is delayed and will be reported to the June Audit Committee / Authority meeting at the earliest.
  - The commencement of audit work on the 2022/23 accounts will be delayed. Typically an interim audit would take place in February, however EY have advised that this will not be possible until completion of their 2021/22 work. Officers will explore options with EY to plan how the 2022/23 audit can take place as promptly as possible.
  - Managing multiple years accounts is inefficient and means a lot of double handling / revisiting detail for the Authority's small finance team. There may be some minor resourcing implications. We will seek to manage / minimise the impact through audit planning meetings with EY.

4. From an internal perspective we will aim to produce draft accounts for audit by early May as usual and report the 2022/23 draft accounts to the June Audit Committee meeting.

## **2020/21 Audit Fees**

5. The resolution and agreement of external audit fees is another long running and previously reported, sector wide issue. For 2020/21 the Authority's basic fee (called the Scale Fee) was £15,223, which is widely recognized as unsustainable. EY subsequently requested an additional £64,993. It is important to note that all audit firms have requested additional fees in this way/of this scale. This reflects the unsustainable nature of the basic fee.
6. Like many public bodies, the Authority's Officers challenged the auditor's additional fee. Consequently the PSAA has undertaken work to review EY's request and have determined an additional fee of £33,946 (Appendix 1) is appropriate. A reduction of £31,047 from the sum requested by EY. This brings the total fee for 2020/21 to £49,169 for the audit of the 2020/21 accounts.
7. Officers additionally requested that PSAA share the EY data they reviewed. EY did not agree to PSAA sharing this information with the Authority. However the overall quantum of the fee determined by the PSAA isn't unreasonable on the basis of work observed to have been undertaken by EY for the audit based on
  - Officer's and finance team provision of data/information for audit work and number/depth of questions asked
  - The numbers of weeks audited, the size of teams, the teams make up etc experienced by Officer's and the finance team.
  - Officers knowledge of day rates for various financial services and audit fees
8. On this basis Officers are minded to conclude the fee discussions with the PSAA for 2020/21. It is unclear if the PSAA have any powers or contractual ability to require/enforce the Authority to settle this sum if members were minded otherwise.
9. For 2021/22 fees and onwards Officer's will again ask that PSAA and EY share the information reviewed by PSAA and depending on the level of additional fee, make an appropriate recommendation.

## **Appointment of External Auditors for 5 years from 2023/24 accounts**

10. Following Audit Committee approval in January to join the PSAA scheme for local authority auditor appointments, the PSAA have progressed with their auditor appointment exercise. KPMG have been appointed as the Authority's auditors for the 5 years accounts from 2023/24.
11. The PSAA expectation is that fees will be set at a sustainable, higher level to reduce the likelihood of the current additional fee issues continuing.

## **Financial implications**

12. The annual value of the external audit fee is likely to increase from the 20/21 level of £50k under the current PSAA arrangements to at least £75k per year under the latest PSAA procurement from 2023/24. The sum has yet to be set by the PSAA.

Contact Officers	Jay Patel, Finance Director <a href="mailto:jaypatel@westlondonwaste.gov.uk">jaypatel@westlondonwaste.gov.uk</a> Ian O'Donnell, Treasurer <a href="mailto:lanodonnell@westlondonwaste.gov.uk">lanodonnell@westlondonwaste.gov.uk</a>	01895 54 55 11
------------------	---	----------------

## Appendix 1

Dear Mr Patel,

### Fee variation proposal

We are writing to inform you that we have reviewed the fee variation proposal (£64,993) submitted by your auditor Ernst & Young LLP for West London Waste Authority for audit year 2020/21.

As you know we have a robust procedure to review and approve fee variations in accordance with the Local Audit (Appointing Person) Regulations. The auditor is required to discuss the proposal with the audited body before any matter is referred to PSAA. Auditors then provide us with the detail of the proposal and whether or not the proposal has been agreed (in full or in part) by the audited body. Once received PSAA considers each and every individual claim carefully, irrespective of whether or not there is local agreement. We have set out our process for assessing fee variation proposals on our website [Fee variation process – PSAA](#), which includes considering their value and size relative to others that are similar.

Having carefully reviewed and considered all of the information provided to us so far, we are currently minded to approve a fee variation of £33,946 (i.e. reducing the auditor's proposal by £31,047). A breakdown of the amounts approved is shown below.

Scale Fee	£15,223
-----------	---------

### Fee Variations

Approved on	Category	Value
14/06/2022	Pension valuation	£3,375
14/06/2022	PPE valuation	£4,750
14/06/2022	PFI	£6,693
14/06/2022	Quality or preparation issues	£1,908
14/06/2022	VFM commentary	£5,042
14/06/2022	COVID-19	£2,627
14/06/2022	Increased FRC challenge	£3,875
14/06/2022	Work of internal expert	£3,176
14/06/2022	ISA540	£2,500

Total Fee Variations	£33,946
----------------------	---------

<b>2020-2021 total fee including this variation</b>	<b>£49,169</b>
---	----------------

Unless we hear from you by 29 June 2022 we will work on the basis that the amount above will be the final determination. You can contact us at [feevariations@psaa.co.uk](mailto:feevariations@psaa.co.uk).

Kind regards

PSAA

## Audit Opinions data 2015/16 to 2021/22

<b>Audit year <i>Publishing date</i></b>	<b>Number of opted in bodies</b>	<b>Percentage of audits complete by publishing date</b>	<b>Number of audits by oldest year outstanding</b>	<b>Number of audits outstanding per financial year</b>
2021/22 30 Nov	<b>467</b>	12%	250	411
2020/21 30 Sep	<b>474</b>	9%	116	161
2019/20 30 Nov	<b>478</b>	45%	35	45
2018/19 31 Jul	<b>486</b>	57%	7	10
2017/18 31 Jul	<b>494</b>	87%	2	3
2016/17 30 Sep	<b>497</b>	95%	0	1
2015/16 30 Sep	<b>497</b>	97%	1	1

As at 30 November 2022