



Public Document Pack

Uttlesford District Council

Chief Executive: Dawn French

SUPPLEMENTARY PACK

Governance, Audit and Performance Committee

Date: Tuesday, 2nd June, 2020

Time: 7.00 pm

Venue: Zoom - <https://zoom.us/>

Chair: Councillor E Oliver

Members: Councillors G Bagnall, G Driscoll (Vice-Chair), M Foley, V Isham, R Jones, A Khan, S Luck and J De Vries

ITEMS WITH SUPPLEMENTARY INFORMATION PART 1

Open to Public and Press

3 Audit Additional Fees

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To consider the report on Audit Additional fees.

This supplementary pack contains:

- Briefing note supplied by the auditor (BDO)
- Scale of fees letter from the PSAA



Uttlesford District Council

Chief Executive: Dawn French

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Uttlesford District Council

External Audit for the year ended 31 March 2020

Additional audit fees relating to the external audit of the financial statements

Context

There has been considerable pressure on auditors in recent years to increase the extent and depth of audit work in a number of areas, including valuation of property, plant and equipment (PPE), pensions liabilities and group audits. Despite this, in the vast majority of cases, there has been no reflection by PSAA in the Scale fees set for local government bodies.

Our analysis of historical Scale fees, including of this Council, has shown that barring changes made following Audit Commission and PSAA procurement exercises and a minor teak linked to the removal of business rates certification work for 2014/15, there had been no changes to Scale fees since they were first introduced in 2012/13. However, there have been significant changes in expectations and workload.

On 12 December 2019, PSAA wrote to all Section 151 officers explaining that it had been necessary for auditors to change their approaches and increase their work and consequent resource input:

“the immediate impact [of national reviews of audit] is clear - significantly greater pressure on firms 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.

Timing

PSAA also encouraged auditors to assess and communicate this to Councils as early as possible:

We have stressed that bodies need this information at the earliest possible opportunity (accepting that that unforeseen issues arise during the audit process, and that this may be towards the end - the aim is though that they are highlighted as soon as is practicable). This includes that wherever possible auditors should highlight at the planning stage any additional work which is likely to be required during the audit, including potential fee implications. Whilst 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.

We reported the need for additional fees in our Audit Planning Report presented to the Committee on 13 January 2020. We provided an analysis of assessment to Officers on 4 March 2020. This report was due to be presented to the Governance, Audit and Performance Committee on 24 March 2020.

Additional fees

We have identified three key areas where the extent of additional challenge work is clearly visible, and which represent a recurring higher level of work and of resource need and fee. These are:

- Valuation of PPE: £3,700. This is work undertaken by the local audit team in reviewing input data provided to valuers, assessing the competency of the valuer and challenging the assumptions made in arriving at the valuations, including the basis of valuation (e.g. open market value, social use discounts, investment properties, specialised buildings etc.). Auditors do not simply agree figures from the valuer's report to the financial statements.
- Valuation of LGPS pensions liability (and allocation of pension fund assets): £1,100. This represents the local audit team's additional work to request and challenge findings of the Essex County Council Pension Fund auditor relating to both the pension fund liability (which is calculated by the Fund's actuary) and the Council's apportioned assets. The vast majority of additional challenge work is undertaken centrally by that other audit team. As for PPE, auditors do not simply agree figures from the actuary's report to the financial statements
- Group audit: £1,910. There has been no Scale variation for the Council's accounts having a set of group accounts needing audit. This work relates to auditing the consolidation and the various group statements and disclosures. The vast majority of the Aspire asset valuation work is undertaken as part of the statutory audit of that subsidiary, and we place reliance on that.

There may be other areas where additional audit resource may be necessary, potentially just for but our focus at this stage is on known, recurring areas of our audit that would impact on the Scale as against being addressed by a year-specific fee variation.

2020/21 and future years

PSAA wrote to Audit Committee Chairs and Section 151 Officers on 30 April 2020 in respect of the *Fee Scale for the Audit 2020/21 and update on 2019/20*. This letter repeated some of the issues set out in PSAA's communication of 12 December 2019, specifically those relating to increased expectations on auditors, and the basis for setting the 2020/21 Scale fees. The letter stated that:

We consulted on the 2020/21 Scale of Fees in early 2020 and received a total of 54 responses. We published the final document on our website Scale fee document. In it we explained that although we have set the scale audit fee at the same level as for 2019/20, we do not expect the final audit fee to remain at that level for most if not all bodies because of a variety of change factors, the impact of which cannot be accurately or reliably estimated at this stage.

Factors include that the variations presented in this report are not yet reflected in the 2019/20 Scale fee for the Council but also that there are notable changes being made to the scope and approach to undertaking and reporting on Use of Resources in the NAO's new Code of Audit Practice and relevant application guidance, Auditor Guidance Note 3 (AGN03). Whilst the new Code has been issued, AGN03 is still being developed and is not expected to be finalised until Autumn 2020.

The expectation in respect of the resource needs and consequent fees is that there will be an increase - both in terms of the seniority and experience of staff needing to undertake the work but also in the quantum of work involved both in delivery and reporting.

We will report back to the Governance, Audit and Performance Committee as the guidance develops and the likely impact becomes clearer.

David Eagles, Partner
Engagement Lead
For and on behalf of BDO LLP, Appointed Auditor

26 May 2020

30 April 2020

By email

Email generalenquiries@psaa.co.uk

Dear Section 151 Officer and Audit Committee Chair

Fee Scale for the Audit 2020/21 and update on 2019/20

I am writing to notify you of your 2020/21 audit scale fee. In previous years your auditor has been required to write to you to do this. However, going forward, we have agreed with the audit firms that it is more efficient for PSAA to write out to all bodies directly.

PSAA commissions auditors to provide audits that are compliant with the National Audit Office's Code of Audit Practice ('the Code'). PSAA is required by s16 of the Local Audit (Appointing Person) Regulations 2015 (the Regulations) to set the scale fees by the start of the financial year, and we published the 2020/21 scale fees on our website on 31 March 2020. In addition to notifying you directly of your scale fee, this letter provides you with key updates and information on audit matters in these difficult times.

We wrote to all S151 officers on 12 December 2019 describing that local audit and audit more widely is subject to a great deal of turbulence with significant pressures on fees. These pressures still apply and the key aspects are summarised below;

- It is apparent that the well publicised challenges facing the auditing profession following a number of significant financial failures in the private sector have played a part. As you know, these high profile events have led the Government to commission three separate reviews - Sir John Kingman has reviewed audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon has reviewed the audit product.

- It is not yet clear what the long term implications of these reviews will be. However, the immediate impact is clear - significantly greater pressure on firms 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.

How we set your scale fee

We consulted on the 2020/21 Scale of Fees in early 2020 and received a total of 54 responses. We published the final document on our website ([Scale fee document](#)). In it we explained that although we have set the scale audit fee at the same level as for 2019/20, we do not expect the final audit fee to remain at that level for most if not all bodies because of a variety of change factors, the impact of which cannot be accurately or reliably estimated at this stage.

The impact of these changes is likely to vary between bodies depending on local circumstances, and information to determine that impact with any certainty is not yet available. Our view is that it would also be inappropriate to apply a standard increase to all authorities given the differing impact of these changes between bodies. As the impact of these changes is understood, fee variations will need to be identified and agreed reflecting the impact on each audit

	Scale fee for the audit 2020/21	Scale fee for the audit 2019/20
Uttlesford District Council	£40,745	£40,745

As well as the Scale of Fees document, we have also produced a [Q&A](#) which provides detailed responses to the questions raised as part of the consultation. We will update the Q&As periodically to take account of ongoing developments affecting scale fees.

The fee for the audit is based on certain assumptions and expectations which are set out in the [Statement of Responsibilities](#). This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of both in certain areas.

The final fee for the audit will reflect the risk-based approach to audit planning as set out in the Code. Under the Code, auditors tailor their work to reflect local circumstances and their assessment of audit risk. This is achieved by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting audit responsibilities or financial reporting standards.

Fee Variations

As noted above, we recognise that with so much turbulence and change in the local audit environment, additional fee variations are likely to arise for most if not all bodies.

The amount of work required on arrangements to secure VFM is a matter of auditor judgement and is based on the requirements set out in the new Code and supporting guidance which will be published later in 2020. Once the Auditor Guidance Notes have been published we will be able to consider the impact of the new requirements in more depth, and may be able to provide indicative ranges in relation to the likely fee implications for different types and classes of body.

Given that local circumstances at each audited body are key to determining the assessment of risk and the audit work required, we would encourage early dialogue with your auditor to determine any related implications for fees. The process for agreeing fee variations begins with local communication, and ideally agreement. We have produced a fee variation process note which is available on our website ([Fee variations process](#)). Please note that all fee variations are required to be approved by PSAA before they can be invoiced.

Quality of Audit Services

We are committed to do all we can to ensure good quality audits and a high-quality service for the bodies that have opted into our arrangements. The service that you can expect to receive from your auditors is set out in their Method Statement, which is available from your auditors.

Whilst professional regulation and contractual compliance are important components of the arrangements for a quality audit service, so too is the aspect of relationship management. We recently commissioned a survey via the LGA Research team to obtain audited bodies' views of the audit service provided to them. The themes and improvement areas from the survey will be discussed with firm contact partners for development at a local level. The results from our 2018/19 survey of all opted-in bodies will be available on our website in May and we will notify all S151 officers and Audit Committee Chairs.

Impact of COVID-19 on current 2019/20 audits

The global COVID-19 pandemic has created further turbulence impacting on all aspects of the economy including the public sector. There are potentially significant repercussions for the delivery of audits, audit-related issues and delays to signing audit opinions for 2019/20. MHCLG has acted to ease these pressures by providing more flexibility in the 2019/20 accounts preparation and auditing timetable by temporarily revising the Accounts and Audit Regulations. This has extended the period which an authority has to publish its draft financial statements until 31 August, and importantly there is much greater flexibility for the public inspection period as it is now required to start on or before the first working day of September 2020. The revised date for publishing audited accounts (if available) is 30 November 2020.

We recommend that you discuss with your auditors the use that can be made of this flexibility in meeting mutual governance and assurance responsibilities, noting that in a letter to all local authority Chief Executives on 22 April, MHCLG encouraged approval of pre-audit accounts earlier than 31 August if possible.

We have referred to the importance of audit quality in this letter, and just as important is the quality of the pre-audit financial statements and the working papers that are prepared by bodies. The disruption caused by COVID-19 will impact on areas of judgement and creates uncertainty in preparation of the financial statements, and it is key that bodies ensure there is sufficient focus upon financial reporting and related processes and controls, and that the planned timetable allows for sufficient internal quality assurance and review of financial reporting issues taking into account the wider impact of the pandemic on the officers' time.

Local Audit Quality Forum

Our Local Audit Quality Forum focuses on providing information to support audit committees (or equivalent) in delivering their remit effectively. We are disappointed that we are not able to host our planned event this summer due to the COVID-19 pandemic. However, we plan to host our next event towards the end of the year. It will provide an opportunity to discuss a range of relevant topics and themes. If there are any particular areas you would like to see included on a future agenda, or if you wish to raise any other issues with PSAA, please feel free to contact us at generalenquiries@psaa.co.uk

Your auditor will, of course, be best placed to answer any questions you may have with regard to your audit.

Yours sincerely,

Tony Crawley

Chief Executive