



## 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