



Buckinghamshire  
District Councils  
Audit fees update  
Year ended 31 March 2020

March 2021



Private and Confidential  
Members of the Audit and Governance  
Committee  
Buckinghamshire Council

March 2021

Dear Committee Members

Audit fees update

We have previously presented our Audit Plans and Reports for the 19/20 audits of the four Buckinghamshire Districts.

During that time we have noted in combination there were several drivers affecting the costs of delivering audits for 19/20:

- the change nationally in the risk and regulatory environment in which local audit is now operating;
- the outbreak of the COVID-19 pandemic and its impact on society and the economy; and
- specific to our four audits, the creation of the new Buckinghamshire Council and the demise of the four District Councils.

These technical issues and logistical challenges have been summarised in our previous reports, collectively setting out our how we carried out our responsibilities as auditor in a constantly evolving situation. The impact on scale fees of the national risk and regulatory environment has been previously shared with the committee (July 2020).

Now that our year end audits have finished, we are in a position to inform the Audit and Governance Committee of the impact of the other significant changes and revisions to the scope of our work and the cost implicit in delivering it.

This update is intended solely for the information and use of the Audit and Governance Committee and management. It is not intended to be, and should not be, used by anyone other than these specified parties.

Yours faithfully

Andrew Brittain

For and on behalf of Ernst & Young LLP



01

# Update on audit fees



## 19/20 Audit fees for the legacy District Councils

### Timeline

Time	Process	Communication with the DCs
Late 2019 through to March 2020	After the completion of the 2018/19 audits, EY had discussions nationally with PSAA to consider the impact that a number of external factors were having on the underlying cost of an audit. Whilst PSAA recognised the general picture, they stated that they did not have enough data to make decisions on individual bodies' scale fees. We therefore reviewed what we expected the impact to be - in terms of costs of delivery for the 19/20 audits - on an individual authority basis.	We highlighted this process as part of our audit plans submitted to the relevant pre-year end Audit Committees. We discussed with each of the s151 officers the process we had been through and the estimated cost for each Council that we planned to share with PSAA. The proposal was to reset the base 19/20 scale fee from AVDC £43,724, CDC £31,792, SBDC £32,647, WDC £47,961 to AVDC £72,474, CDC £52,992, SBDC £53,797 and WDC £78,461.
June - July 2020	By the end of June it was clear that the Covid-19 pandemic would have a significant impact on the work required to conclude all audits. As the situation was evolving during this period, quantifying it was not possible at that point. The impact that the demising authorities would have was also becoming clearer, both in terms of staff and systems on the provision of information. Again quantification, given the audits were ongoing, was not possible at this stage.	As part of our audit plan update (see extracts on pages 5 and 6), written at the end of June for the July A&G Committee we provided an analysis of the key factors driving the variation in the fee as it related to the base cost of delivering an audit. This was consistent with information previously shared with individual Councils. We also explained that this did not include the impact of Covid-19, but outlined the likely areas where it would have an impact, highlighting a few specific areas by individual Council. Finally we noted the issues identified in the provision of information associated with the move to the unitary authority.
November – December 2020	The audits of the Councils were completed and signed off, with appropriate recognition and disclosure of the impact of both Covid-19 and the situation relating to their demise. At this point we were able to quantify the total impact of all the additional factors previously identified.	Our Annual Audit Letter included the impact of the additional required areas of audit and the costs incurred in completing the delivery. In coming to these figures, we excluded a large number of hours incurred recognising where EY team changes had been a contributory factor. The resulting fees were discussed in detail with Richard Ambrose, and we subsequently agreed to share the costs we incurred because of the logistical inefficiencies from both Covid-19 and the impact of the unitary between us. This results in the additional proposed audit fees of AVDC £18,287, CDC £18,036, SBDC £19,455 and WDC £20,370. A further breakdown of these can be found in Appendix A.
March 2021	We are required to submit a detailed breakdown of all the fee variations to PSAA for their approval.	

# 19/20 Audit fees for the legacy District Councils

## Extracts from the Audit Plan update June 2020

Our update to the Audit Plan presented to the July Audit & Governance Committee explained the likely impact of Covid-19 on the completion of the audit – both the technical and logistical challenges it presented.

We also explained that the analysis of fees presented did not take the impact into account at that point as it was not possible to quantify it accurately at that time.

We have included these extracts here for ease of reference.

### 19/20 Audit fees for the legacy District Councils

#### Other areas of audit focus

##### Impact of Covid-19

The ongoing disruption to daily life and the economy as a result of the Covid-19 virus will have a pervasive impact upon the financial statements. Understandably, the priority for all Councils to date has been to ensure the safety of staff and the delivery of business-critical activities. However, the financial statements will need to reflect the impact of Covid-19 on all Councils' financial position and performance. Due to the significant uncertainty about the duration and extent of disruption, at this stage we have not identified one overall specific risk related to Covid-19, but wish to highlight the wide range of ways in which it could have an impact on the financial statements. These may include, but may not be limited to:

- ▶ **Going concern** - even with the unitary authority process, management will present the financial statements on a going concern basis and management's assessment of this will need to consider the impact of the current conditions on the Councils. Additional narrative disclosure will be required.
- ▶ **Revenue recognition** - there may be an impact on income collection (Council Tax and Business Rates) if businesses and residents are unable to work and earn income because of the lockdown and restriction of movement due to COVID-19.
- ▶ **Tangible assets** - there may be impairment of tangible assets if estimates of valuation are reduced because of the economic impact of the virus. The Councils may also have already incurred capital costs on projects where the economic case has fundamentally changed.
- ▶ **Pensions** - volatility in the financial markets is likely to have a significant impact on pension assets, and therefore net liabilities.
- ▶ **Receivables** - there may be an increase in amounts written off as irrecoverable and impairment of year-end balances because of the increased number of businesses and residents unable to meet their financial obligations.
- ▶ **Holiday and sickness pay** - the change in working patterns may result in year-end staff pay accruals which are noticeably different from prior years.
- ▶ **Annual Governance Statement** - the widespread use of home working is likely to have changed the way internal controls operate. The Annual Governance Statement will need to capture how the control environment has changed over the period and the steps taken to maintain a robust control environment during the disruption. This will also need to be considered in the context of internal audit's ability to issue their Head of Internal Audit opinion for the year, depending on whether they have been able to complete the remainder of the internal audit programme.

We have outlined below our latest considerations on the impact of the risks already identified as part of our audit plans for the Councils. We will provide an update on the impact of Covid-19 on the Councils' financial statements, and our responses to any additional risks of misstatement, when we report the results of our audit.

In addition to the impact on the financial statements themselves, the disruption caused by Covid-19 may have an impact on the ability of both auditors and auditees to complete the audit to the planned timetable. For example, it may be more difficult to access the necessary supporting documentation. There will also be additional audit procedures we must perform to respond to the additional risks caused by the factors noted above.

## Appendix A

### Fees

#### Summary of impact

Based on the factors above, and in light of requests from PSAA to provide further detailed analysis, we have estimated the impact on the four Councils to be as shown below. Note that given the timing of this exercise, it does not include the impact of any specific requirements for additional work in response to COVID-19. As noted below, these amounts are subject to PSAA approval.

# 19/20 Audit fees for the legacy District Councils

## Extracts from the Audit Plan update June 2020

In the update to the Audit Plans we shared some specific examples for all four Councils of the incremental risks and challenges to the audit, inherent in delivering it at the time, covering both the effect of Covid-19 and the demising authorities.

We have included these extracts here for ease of reference.

### Audit risks

#### Other areas of audit focus

Council	Risk impact	Rationale
All DCs	We identified an inherent risk around the move to a unitary authority in terms of adequate disclosures in the narrative reports and completeness of creditors. We also pointed out the potential impact on staff capacity of staff leaving and dealing with preparation of accounts while taking on new roles and responsibilities	There has been a joint approach to disclosures across all DCs, but the disclosures need to be revisited in the light of the multiple ways in which COVID is affecting areas of the statements. Completeness of creditors and year-end cut-off is proving more onerous as DCs have for the most part transferred to SAP and it is more difficult to identify, and test, transactions relating to the specific bodies. We are therefore testing jointly across all four, but the process is time-consuming. We have had issues getting information in time: 2 sets of statements were not available for the 1 June start of the audit. There is also the inherent inefficiency of the change to remote working because of COVID, although we acknowledge that overall the process has gone relatively smoothly.

### Audit risks

#### Other areas of audit focus

Council	Risk impact	Rationale
Aylesbury Vale	We identified PPE valuation as a significant risk in our original plan. Since then we have received draft statements which have £24m of PPE reclassified as IP. We consider IP to be significant risk as well now, as a result	COVID-19 exacerbates the risks associated with valuation, especially of retail assets, which we already considered to be volatile because of overall economic factors (valuation assumptions include rental income, for example). We will therefore be involving our specialists to look at a sample of assets. The Council's valuers refer to "material uncertainty" in their valuation. While the main impact may well fall in 20/21, this in itself requires more rigorous consideration of post-balance sheet events and how the authority satisfied itself on going concern. Because of this we consider both going concern and PBSEs to be an inherent risk arising since our original plan.
Chiltern	We still have concerns over the capacity of the Council to provide all necessary support for the audit within the audit window (also applies to SBDC).	This risk was presented in our Audit Plan but the audit work has got off to a slow start because of problems accessing working papers, and the fact that the draft accounts were submitted for audit later than originally planned. As at the date of this report, we have everything we need but this issue has caused a significant delay on our planned timescales.
South Bucks	We identified the £19m investment property purchase by the Council's subsidiary, <u>Consilio</u> , to be an 'other' level risk.	<u>Consilio</u> already owns a Travelodge and has purchased an office complex (with a £19m loan from the Parent). Given the potential effect of Covid-19 on retail and office valuations (and the fact that Travelodge is subject to a voluntary CVA), this constitutes a level of uncertainty over the March 2020 valuation figures.
Wycombe	We identified both PPE and IP as significant risks because of the size and complexity of the property portfolio.	COVID-19 has the same potential effect as for AVDC, especially as the Council has a large retail portfolio. The same audit considerations therefore apply. Because of this we consider both going concern and PBSEs to be an inherent risk arising since our original plan.



02

## Appendix



## Appendix A

# Additional work required

Area	Explanation
A - Specific account areas	
A1 - Pensions	The follow-up work required in relation to IAS 19 reporting including the revised balances plus assessment of the position in relation to both the McCloud and Goodwin cases.
A2 - Property valuations	Increase in risk, given valuers materiality uncertainty disclosure, required additional samples to be tested and for specific assets to be reviewed by our specialists with extended procedures to establish appropriate levels of support and/or material adjustments to the valuations within the statements.
A3 - VAT issue	Specific follow-up in relation to a VAT accounting issue highlighted at AVDC.
A4 - Group	Specific follow-up in relation to the group accounting at SBDC given the transactions at Consilio during the year.
B - Impact of demising authorities	
B1 - Reassessing - FS and VfM	Requirement to reconsider our risks; including fraud risks, management override, disclosure and capacity post the demising of the Councils.
B2 - Additional disclosure & reporting	Additional work needed to review the disclosures, and agree impact on the form of our opinion incorporating an Emphasis of Matter (EoM).
B3 - Unrecorded liabilities	Additional work required to gain assurance over unrecorded liabilities as a result of the 20/21 transactions being housed within the new Buckinghamshire Council system.
B4 - Exit packages	Specific follow-up at AVDC as a result of the significant additional number of exit packages at that Council.
B5 - Capacity issues at audit start	Impact of delays from resource constraints in the preparation of accounts and supporting working papers across several of the audits.
C - Impact of Covid-19	
C1 - Reassessment of materiality	Requirement to reassess materiality levels in response to the impact of the pandemic.
C2 - Reassess risks & going concern procedures	In light of the heightened risk, consideration of the impact on the financial statements, reviewing of managements assessment of going concern including evolving unitary funding and liquidity plans and disclosure thereof.
C3 - Required consultations	As a consequence of the pandemic, to quality assure all opinions issued, we were required to document our evidence in relation to going concern, the impact of Covid-19 and the resulting implications for the audit report (property valuation EoM) . Then the assessment of each Council was required to go through independent Partner review.
C4 - Remote working impact	Additional time incurred in obtaining responses and evidence as an inevitable impact of the inefficiencies of transferring to a different and remote way of working.

## Appendix A

### Fees

		SBDC	CDC	AVDC	WDC
<b>A Specific account areas</b>					
1	Pensions	1,958	1,958	1,958	1,958
2	Property valuations	3,174	3,174	2,910	7,375
3	VAT issue	-	-	1,614	-
4	Group	1,214	-	-	-
		<u>6,346</u>	<u>5,132</u>	<u>6,482</u>	<u>9,333</u>
<b>B Impact of demising authorities</b>					
1	Reassessing risks - FS & VfM	1,104	1,104	1,104	1,104
2	Additional disclosure & reporting	1,858	1,653	1,858	1,858
3	Unrecorded liabilities	962	962	962	962
4	Exit packages	-	-	1,316	-
5	Capacity issues at audit start	2,342	2,342	-	548
		<u>6,266</u>	<u>6,061</u>	<u>5,240</u>	<u>4,472</u>
<b>C Impact of Covid-19</b>					
1	Reassessment of materiality	372	372	372	372
2	Reassess risks and going concern procedures	2,370	2,370	2,092	2,092
3	Required consultations	2,151	2,151	2,151	2,151
4	Remote working impact	1,950	1,950	1,950	1,950
		<u>6,843</u>	<u>6,843</u>	<u>6,565</u>	<u>6,565</u>