

Winchester City Council

Annual Audit Letter for the year
ended 31 March 2020

December 2020

Page 51

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

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Contents

		Page
Section 1	Executive Summary	3
Section 2	Purpose and Responsibilities	7
Section 3	Financial Statement Audit	10
Section 4	Value for Money	17
Section 5	Other Reporting Issues	19
Section 6	Focused on your future	22
Appendices		
Appendix A	Audit Fees	24

Page 52

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities of the Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



Section 1

Executive Summary

Page 53

Executive Summary

We are required to issue an annual audit letter to Winchester City Council (the Council) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below:

Area of impact	Commentary
Impact on the delivery of the audit	
▶ Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. We worked with the Council to deliver our audit in line with the revised reporting timescale.
Impact on our risk assessment	
▶ Valuation of Property Plant and Equipment	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
▶ Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
▶ Events after the balance sheet date	We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic may need to be disclosed. The amount of detail required in the disclosure would need to reflect the specific circumstances of the event and the Council.
Impact on the scope of our audit	
▶ Information Produced by the Entity (IPE)	<p>We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:</p> <ul style="list-style-type: none"> • Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and • Agree IPE to scanned documents or other system screenshots.
▶ Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
▶ Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Page 55

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 2 November 2020
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 30 November 2020

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Kevin Suter
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 12 November 2020 Audit and Governance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 5 February 2020 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2019/20 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

Page 60



Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 30 November 2020.

Our detailed findings were reported to the 12 November 2020 Audit and Governance Committee.

The key issues identified as part of our audit were as follows:

Significant Risk

Misstatements due to fraud or error

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Conclusion

We performed the following:

- tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- assessed accounting estimates for evidence of management bias, and
- evaluated the business rationale for significant unusual transactions.

In addition, we:

- inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding the oversight given by those charged with governance of management's processes over fraud, and
- we have considered the effectiveness of management's controls designed to address the risk of fraud.

We did not identify any material weaknesses in controls or evidence of material management override.

We did not identify any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

We have not identified any unusual or unsupported journals, or other adjustments made in preparing the financial statements.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p>Risk of fraud in revenue and expenditure recognition - inappropriate capitalisation of revenue expenditure</p> <p>Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.</p> <p>From our risk assessment, we have assessed that the risk manifests itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund.</p>	<p>We performed the following:</p> <ul style="list-style-type: none">▪ We selected a sample of PPE additions to test and confirm the item was appropriate to capitalise through agreement to evidence such as invoices and capital expenditure authorisations.▪ We selected a sample of REFCUS items to test to confirm the appropriateness of the classification of these items▪ When performing journals testing, we analysed entries that would be classed as high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised or reclassified as REFCUS. <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>PPE additions met the capitalisation requirements under IAS16 and REFCUS items were appropriately classified</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions through our test of journals or our other audit procedures which appeared unusual or outside the Council's normal course of business.</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p>Valuation of Property, including Investment Property</p> <p>The valuation of property is complex and subject to several assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.</p> <p>Following the Covid-19 pandemic and resulting lockdown in late March 2020, valuers had less access to evidential data which would help to underpin their valuations. In light of this, RICs guidance recommended the use of a “material valuation uncertainty” clause in all 31 March 2020 asset valuations. This was applied in the Council’s accounts. While this clause does not mean a valuation cannot take place, there is an increased risk that the valuation may be materially misstated.</p> <p>We have therefore increased this to a significant risk, compared to our original risk assessment. We focus this enhanced risk on assets valued under Existing Use Value (EUV) or Fair Value (FV) methodologies as these methods take into account comparative market information.</p>	<p>We performed the following:</p> <ul style="list-style-type: none"> ▪ Considered the work performed by the Council’s valuer, this included a review of the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▪ Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre); ▪ Instructed our own Property valuation team (EY Real Estates) to review a sample of EUV and FV valuations performed by the Council’s Valuer; ▪ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE; ▪ Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated; ▪ Considered changes to useful economic lives as a result of the most recent valuation; ▪ Tested accounting entries have been correctly processed in the financial statements; and ▪ We reviewed the adequacy of the “material valuation uncertainty” disclosure in the Council’s accounts. <p>Based on our sample testing of a number of Property, Plant & Equipment and Investment Property assets, we identified no issues with DRC and Council Dwelling valuation. The EYRE report identified differences in the valuation methodology for some EUV and FV assets. After discussion and amendment of some assets, the differences were reduced to an immaterial level.</p> <p>We were satisfied with the key asset information used, the useful lives of the assets tested and the accounting entries were correctly processed.</p> <p>We are satisfied with the material valuation uncertainty disclosure in the Council’s accounts.</p>

Financial Statement Audit (cont'd)

Other areas of audit focus	Conclusion
<p>Going Concern</p> <p>Covid-19 has created a number of financial pressures throughout Local Government. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19.</p> <p>There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.</p> <p>CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.</p> <p>However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.</p> <p>To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.</p>	<p>We sought a documented and detailed consideration to support management's assertion regarding the going concern basis.</p> <p>Our audit procedures to review these included consideration of:</p> <ul style="list-style-type: none"> - Current and developing environment; - Liquidity (operational and funding); - Mitigating factors; - Management information and forecasting; and - Sensitivities and stress testing. <p>We received management's Going Concern assessment along with a cashflow forecast spanning at least 12 months from the approval date of the accounts. We are satisfied with the conclusion that the Council remains a Going Concern, based on reasonable and supportable assumptions.</p> <p>We are satisfied that the Council's Going Concern Disclosure is sufficiently detailed, transparent and accurately reflects managements underlying Going Concern assessment.</p>

Financial Statement Audit (cont'd)

Other areas of audit focus	Conclusion
Pension Liability	<p>In order to produce their report the pension actuary takes data from earlier in the year, and estimates the value of the pension assets and liabilities as at the year-end.</p> <p>Our testing has no material misstatements.</p> <p>We have concluded that we could rely on the work of the Pension Fund actuary. The values and entries from the actuarial report were correctly reflected in the Council's financial statements.</p> <p>We have obtained the final relevant assurances from Hampshire Pension Fund auditors which raised no material issues from their review of the IAS19 protocol procedures.</p> <p>Events after the year-end, the McCloud consultation and the Goodwin judgement, do not have a material impact on pension liability and do not require disclosure.</p>

Page 65

Other Key Findings

Summary of adjusted and unadjusted differences

We reported to you one uncorrected misstatement in our Audit Results report relating to the following:

- Pension Asset Overstatement - £620k

It was subsequently agreed with management to correct for this difference in the accounts and therefore the final accounts have been amended and reviewed for this change.

Following the completion of our audit procedures, we noted a further uncorrected misstatement:

- PPE valuation Overstatement - £1.4m

This is the remaining difference on the Council's property assets that we view to be outside of a reasonable range, as discussed on page 13.

As this difference is not above our materiality level, we conclude that the balances are materially fairly stated and we did not modify our audit opinion in respect of this matter.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £1.86m (2019: £2.00m), which is 2% of Gross Revenue Expenditure reported in the accounts.</p> <p>We consider Gross Revenue Expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Audit and Governance Committee that we would report to the Committee all audit differences in excess of £0.09m (2019: £0.10m)</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits:
 - Strategy applied:
 - Obtain management's workings and disclosures
 - Agree disclosures to supporting documentation
 - Test a sample of calculations for accuracy
 - Consider whether disclosures are complete in light of our existing knowledge and experience and are in line with code requirements
- ▶ Related party transactions.
 - Strategy applied:
 - Obtain client's supporting documentation of related parties,
 - Check members and senior officer's interests against the transactions in the general ledger.
 - Review a sample of members and senior officers to external data such as Companies House to confirm accuracy of register or interests.
 - Consider whether disclosures are complete in light of our existing knowledge and experience and are in line with code requirements

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

Value for Money



Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

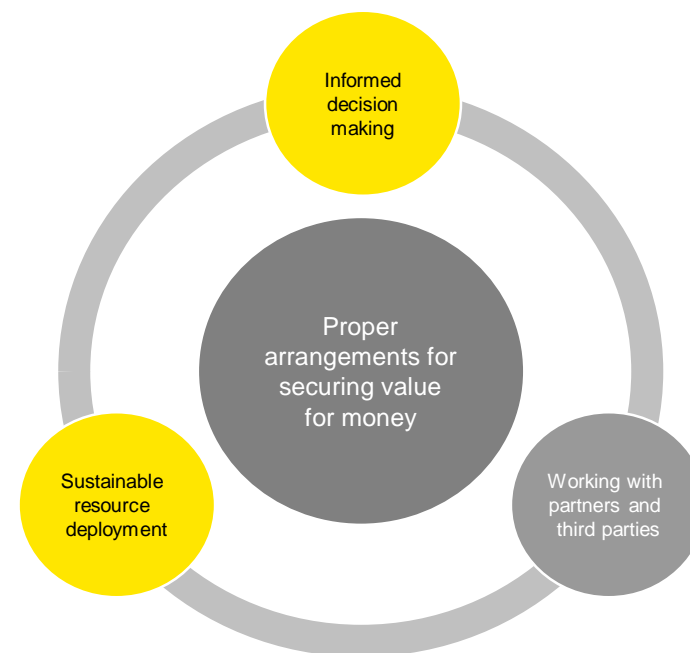
Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authority's response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We did not identify any significant risks in relation to these criteria.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



A photograph of a business meeting in progress. Several people are gathered around a large wooden conference table. In the foreground, a woman with blonde hair is leaning forward, resting her chin on her hand, looking intently at a document on the table. To her right, a man in a light blue shirt and red tie is also looking at the document. Other people's hands and arms are visible around the table, some pointing at the paper. The background is slightly blurred, showing a bright, modern office environment with large windows and greenery.

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council is below the specified audit threshold of £500m. Therefore, we were not required to perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report at the Audit and Governance Committee Meeting on 12 November 2020. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit and Governance Committee.

Section 6

Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2022/23 financial year, following a recent further deferral announced in December 2020.	Whilst the adoption of IFRS 16 has been deferred for a further year, we encourage the Council to use that time to undertake a detailed exercise to identify all of its leases during 21/22 and capture the relevant information for them. The Council must ensure that all lease arrangements are fully documented.

Appendix A

Audit Fees

Page 74

[insert Client Name]

Audit Fees

Our fee for 2019/20 is set out in the table below.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2018/19 £
Total Audit Fee – Code work	£43,379	£43,379	£43,379	£44,879
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (see next page)	£14,670			
Revised Proposed Scale Fee	£58,049			
2019/20 Scale Fee Variation*	£11,524			
Total Audit Fee	£69,573	£43,379	£43,379	£44,879

All fees exclude VAT

We confirm we have not undertaken any non-audit work

*An additional scale fee of £11,524 has been applied to the planned fee based on the following items:

- 1) An additional Scale Fee Variation of £801 has been submitted for IAS 19 Protocol Assurance provided by the Hampshire Pension Fund Auditors
- 2) The identification of the Valuation of PPE and Investment properties as a significant risk resulted in additional work, notably larger sample sizes to be tested. This additional time has been recorded at £2,889.
- 3) As part of the significant risk work over PPE and Investment property valuation, we were required to engage with EY Real Estates to test a sample of assets. Based on the number of hours charged by EYRE, the additional cost is £3,389.
- 4) The identification of Going Concern being identified as an additional risk due to Covid-19 resulted in additional work including discussions, review/challenge of documents, cash flow forecasts, consideration of proposed disclosure. This additional time has been recorded at £3,434. An additional cost of £629 has also been charged as we were required to consult with our professional practise department over the going concern disclosure in the accounts.
- 5) Additional procedures required relating to Housing Benefit expenditure – same SFV as recorded in 18/19, £382.

Audit Fees continued

Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk

Janet Dawson, our Government & Public Sector Assurance Lead, wrote to all Chief Finance Officers and Audit Committee (or equivalent) chairs on 11 February 2020 on the subject of the sustainability of UK local public audit. Amongst other issues her letter stated that we did not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity, and the audit profession's context for cost and fee increases, including the attractiveness of audit, investment in technology, innovation and the regulatory environment.

Around the same time, PSAA consulted on its 2020/21 audit fees ([PSAA fee consultation](#)), discussing the challenging environment, new standards and regulatory requirements. They noted an appropriate forum for fee discussions from these impacts would be between the auditor and Chief Financial Officer, to take place as soon as possible as part of planning discussions for 2019/20 audits.

The subsequent review by Sir Tony Redmond ([Redmond Review](#)) has also highlighted that audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors have significantly risen, and that no assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years due to the methods applied by the Audit Commission and then PSAA. As such there is no guarantee that the fee paid by each local authority accurately reflects the risk profile or amount of audit work required for their external audit.

To address these issues we undertook an analysis of the changes in professional and regulatory requirements since our last tender to PSAA was submitted, and any other known changes in audit risk. For instance, where applicable, significant commercial property investments, creation of joint ventures, subsidiaries and other similar arrangements.

We identified the proposed fee rebasing under the headings of:

- Changes in risk;
- Increased regulatory requirements; and
- Client readiness and ability to support a technologically enabled audit.

As requested by PSAA, we discussed this with management on 28 May 2020, delayed from March 2020 due to the impact of the coronavirus pandemic.

We did not reach agreement. While management recognised many of these pressures and can see how they are reflected in the changes in the audit work, their view was that this is a decision for PSAA.

Having not reached agreement, and in light of managements comments, we will now submit the proposed rebasing to PSAA for their review and decision. We would like to thank management for their contribution to this debate and the positive manner in which they engaged with us, although we did not reach agreement.

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