Mid-Sussex District Council

Annual Audit Letter for the year ended 31 March 2020

December 2020

ANNEXE 1

EY

Building a better working world

Contents

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.psaa.co.uk). [**OR** As part the Auditor Engagement process, we have agreed with you the respective responsibilities of auditors and audited bodies. Copies of the Engagement Letter and Terms and Conditions of our appointment are available from the Chief Executive or via the bodies minutes on their website].

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 [**OR** The Terms and Conditions of our appointment contained within the Engagement Letter] 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 / Terms and Conditions of 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

Executive Summary

We are required to issue an annual audit letter to Mid-Sussex District 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/ Pension Fund 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 external 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 will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Council.
Impact on the scope of our audit	
► Information Produced by the Entity (IPE)	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: ▸ 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/have not] put in place proper arrangements to secure value for money in your use of resources.

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).	We had no matters to report.

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 17 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 20 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

Ref: EY-000092651-01

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 17 November 2020 Audit 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 3 March 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

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 17 November 2020.

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

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

Significant Risk	Conclusion
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 and Ireland) 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.	Our audit work found no evidence that management had attempted to override internal controls. We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business. This conclusion is based on detailed testing of accounts entries susceptible to potential manipulation

Financial Statement Audit (cont'd)

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

Significant Risk	Conclusion
Risk of fraud in revenue and expenditure recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. From our risk assessment, we have assessed that the risk manifests itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund. Capitalised revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid **To gain assurance in this area we:** Examined invoices for significant additions, capital expenditure authorisations, leases and other data that support the additions. We reviewed the sample selected against the definition of capital expenditure in IAS 16. We extended our testing of items capitalised in the year by lowering our testing threshold. We will also review a larger random sample of capital additions below our testing threshold. Journal testing – we used our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.	We are satisfied that capital additions made in the year met the requirements of IAS 16, and had been correctly capitalised

Financial Statement Audit (cont'd)

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

Significant Risk	Conclusion
Valuation of Investment Property The Council holds a significant investment property portfolio. 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. Difficulties in the retails sector in particular have led to many retailers, including well-known names, closing stores, going into administration, or otherwise looking to reduce their rental costs by renegotiating existing leases. These difficulties have had a direct impact on the value of the retail units (high street shops, out of town retail parks and shopping centres) leased to retailers. **To gain assurance in this area we:** 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 property valuations performed by the Councils Valuer Consider the annual cycle of valuations to ensure that investment properties are being revalued every year. Tested accounting entries have been correctly processed in the financial statements; and We also noted that the Council valuer attached a 'material uncertainty' clause to their valuation as a result of Covid-19. We reviewed the adequacy of the disclosure of this in the Council's accounts.	We instructed our property valuation team to review a sample of the valuation performed by the Council. The review focuses on whether the valuation is based on reasonable and supportable assumptions. From this review we identified several asset values were materially misstated. The key areas our valuation team identified differences on were; - Where the current tenant has a short period remaining on their tenancy, the valuation should allow for a void and incentive period at the end of the current lease - Purchase costs should be deducted on the valuation due to the UK market reporting yields on a net basis - Yields assumed by the Council valuer were outside the range of published benchmarks for similar properties Following the correction of these misstatements, we conclude that the balance is fairly stated and do not modify our audit opinion in respect of this matter.

Financial Statement Audit (cont'd)

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

Significant Risk	Conclusion
New Financial Ledger System The Council introduced its new Technology One financial management system with effect from 02 September 2019. It put in place measures to migrate data on 2019/20 transactions and balances from the old to the new financial management system. The Council's 2019/20 financial statements will be prepared using data taken from the new general ledger at the end of the financial year. To ensure the production of materially accurate and complete 2019/20 financial statements, it is essential that the Council is assured over the completeness and accuracy of financial data to its new general ledger **To gain assurance in this area we:** Met with officers to discuss and understand the process for implementing the new financial management system. Reviewed the actions taken by the Council to ensure the complete and accurate migration of financial data to the new general ledger. This included reviewing the effectiveness of reconciliation processes. We also undertook our own testing on the completeness and accuracy of data migration. Met with internal audit to understand the work they had completed in 2019/20 in relation to the new ledger system. Reviewed how data from the new system maps to the statement of accounts, as part of our understanding of the accounts production process for 2019/20.	From the work performed we have sufficient assurance the data transfer from the old system to the new system was materially accurate and complete.

Financial Statement Audit (cont'd)

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

Other Risk	Conclusion
Valuation of Property Plant & Equipment The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and is subject to valuation changes and impairment reviews. Management is required to make material judgements about key assumptions and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. **To gain assurance in this area we:** ▸ 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); ▸ Consider 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 also noted that the Council valuer attached a 'material uncertainty' clause to their valuation as a result of Covid. We reviewed the adequacy of the disclosure of this in the Council's accounts.	We are satisfied that the valuation of property, plant and equipment is fairly stated and appropriately disclosed.

Financial Statement Audit (cont'd)

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

Other Risk	Conclusion
Net pension liability valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council. The Council's pension fund net liability is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020 this totalled £15,081k. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. **To gain assurance in this area we:** ▸ Liaised with the auditors of West Sussex Pension Fund to obtain assurances over the information supplied to the actuary in relation to West Sussex County Council. ▸ Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team. ▸ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19; and ▸ Reviewed the Council's calculation of the impact of the 'McCloud' and 'Goodwin' judgement noting that the post balance sheet events did not have a material impact on the pension liability and therefore are not required to be disclosed as post balance sheet event.	We identified that the pension asset value at 31 March 2020 used by the actuary in their report was understated by £112k. As the difference is not material, we concluded that the net pension liability was fairly stated. In all other respects we have no findings to report.

Financial Statement Audit (cont'd)

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

Other Risk	Conclusion
Going Concern Disclosure 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. 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. 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. 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'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. **To gain assurance in this area we:** In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we sought a documented and detailed consideration to support management's assertion regarding the going concern basis. Our audit procedures to review these included consideration of: ▸ Current and developing environment; ▸ Liquidity (operational and funding); ▸ Mitigating factors; ▸ Management information and forecasting; and ▸ Sensitivities and stress testing. Due to the impact of Covid-19, we also consulted internally with our risk department over the level of disclosure.	We reviewed managements Going Concern assessment and confirm their conclusion that the Council remains a Going Concern is based on reasonable and supportable assumptions. We also reviewed managements updated Going Concern Disclosure and confirmed it sufficiently detailed, transparent and accurately reflects managements underlying Going Concern assessment.

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	We determined planning materiality to be £1.5m (2019: £1.526m), which is 2% of Gross Revenue Expenditure reported in the accounts of £74.1 million We consider Gross Revenue Expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £74k (2019: £76k)

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:
- Related party transactions.
- 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

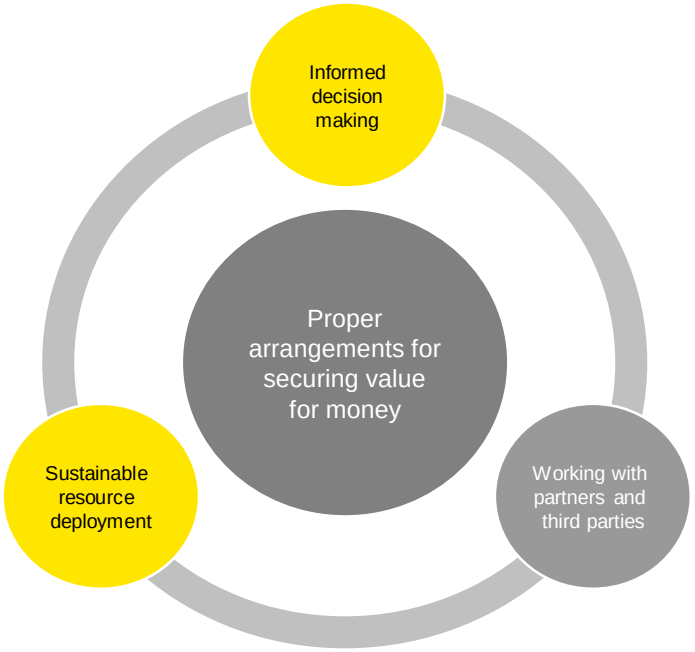
We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

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 NHS bodies' 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



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 £500mn. 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 to the Audit Committee on 17 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.

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

Appendix A

Audit Fees

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	38,917	38,917	38,917	38,917
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (see page 27)	25,314			N/A
Revised Proposed Scale Fee	**64,231**			38,917
Covid-19 – Increased Property valuation risk (1)	8,216			N/A
Covid 19 – Going Concern and consultation (2)	3,347			N/A
Change in FMS (3)	7,760	9,700		
Total Audit Fee	**83,554**			38,917
Other non-audit services not covered above (Housing Benefits) **(4)**	**TBC**			40,922

All audit fee variations are additional to the PSAA scale fee and will be subject to agreement with the Director of Finance and then PSAA.

Audit Fees (cont'd)

Note 1

Due to the increased risk from Covid-19, the variation includes engaging EY Real Estate, our internal property specialists, to review a sample of valuations of investment properties and EUV assets. It also incorporates the findings from that review, and adjustments needed to the valautions and the financial statements.

Note 2

Additional work required as a result of Covid-19 to review management's assessment and additional disclosures that were required in relation to going concern, and our internal consultation process undertaken to ensure that events and conditions in relation to the going concern assumption are adequately disclosed.

Note 3

The Planned Fee for 2019/20 included our initial estimate of the required work in relation to the new ledger system at £9,700. We noted the final additional fee may vary depending on the final scope of work required, and its findings and impact on the audit strategy. We completed the work in less time that originally estimated.

Note 4

Our fees for the work on the Housing Benefit Subsidy claim will be finalised after the completion of the work, aimed for 31 January 2021.

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 consulation), 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 27 May 2020

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.

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ED None

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