East Sussex Fire Authority

Annual Audit Letter for the year ended 31 March 2020

December 2020

EY
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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).

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 / 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 East Sussex Fire Authority (the "Authority") 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 Authority 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 Authority's external valuer. We considered that whilst the material uncertainties disclosed by the valuer gave rise to additional risk relating to disclosures on the valuation of property, plant and equipment they did not increase the risk overall.
► Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans have required revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Authority'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 Authority.
► Adoption of IFRS16	The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of local authority financial statements has been deferred until 1 April 2021. The Authority was therefore no longer required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements did not need to be financially quantified in 2019/20. We therefore no longer considered this to be an area of audit focus for 2019/20.

Executive Summary (cont'd)

Area of impact	Commentary
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 Authority'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 ▶ Agreed IPE to scanned documents or other system screenshots.
▶ Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19 were put in place. The changes to audit risks and audit approach changed the level of work we needed to perform.

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

Area of Work	Conclusion
Opinion on the Authority's:	
▶ Financial statements	Unqualified: the financial statements give a true and fair view of the financial position of the Authority 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 Authority'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.

Executive Summary (cont'd)

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Authority.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Authority, 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.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Authority's Whole of Government Accounts return (WGA).	We had no matters to report.

Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Authority communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 17 November 2020 and presented to the Scrutiny & Audit Panel on 26 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 Authority's staff for their assistance during the course of our work.

Helen Thompson
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 Authority.

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the Scrutiny & Audit Panel on 26 November 2020, 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 Authority.

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued to the Scrutiny & Audit Panel on 17 January 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 Authority 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 Authority;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Authority, 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 on your Whole of Government Accounts return. The Authority is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the return.

Responsibilities

Responsibilities of the Authority
The Authority is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Authority 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 Authority 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 Authority's Statement of Accounts is an important tool for the Authority to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Authority'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 Scrutiny & Audit Panel on 26 November 2020.

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 assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of assets as a potential area of manipulation, which is recorded as a separately identified significant risk - inappropriate capitalisation of revenue expenditure. Our work on estimates focussed on PPE valuation and IAS19 pension estimates which are identified as areas of higher inherent risk and are reported on further in this report. We identified the key fraud risks at the planning stage of the audit and considered the effectiveness of management's controls that are designed to address the risk of fraud. We updated our understanding of the risks of fraud and the controls put in place to address them and made enquiries of Internal Audit, management and those charged with governance to support our understanding. Our approach focused on: ‣ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ‣ Assessing accounting estimates for evidence of management bias; and ‣ Evaluating the business rationale for significant unusual transactions Our conclusion on the work performed is that we did not identify: ‣ any evidence of material management override. ‣ any instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions. ‣ any other transactions during our audit which appeared unusual or outside the Authority's normal course of business

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 – inappropriate capitalisation of revenue expenditure 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 assessed that the risk manifests itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.	We focused on whether expenditure was properly capitalised in its initial recognition, or whether subsequent expenditure on an asset enhances the asset or extends its useful life. Our approach focused on: ▸ selecting 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; and ▸ performing journals testing: in this testing we challenged entries that could be indicative of inappropriate capitalisation, such as journals which reclassify transactions originally recorded as revenue expenditure to capital. Our conclusion on the work performed is that: ▸ Our sample testing of additions to property, plant and equipment found that they had been correctly classified as capital and included at the correct value. ▸ Our sample testing of additions to property, plant and equipment did not identify any revenue items that were incorrectly classified. ▸ Our data analytic procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.

Financial Statement Audit (cont'd)

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

Significant Risk	Conclusion
Net pension liability valuation The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by East Sussex County Council and the Firefighters' Pension Scheme. The Authority's pension fund liabilities are material estimated balances and the Code requires that these liabilities be disclosed on the Authority's balance sheet. At 31 March 2020 this totalled £396 million. The information disclosed is based on the IAS 19 reports issued to the Authority by the actuaries to the two pension schemes. Accounting for these schemes involves significant estimation and judgement and therefore management engages actuaries to undertake the calculations on its 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.	Our approach focussed on: ‣ Liaising with the auditors of East Sussex Pension Fund, to obtain assurances over the information supplied to the actuary in relation to East Sussex Fire Authority. ‣ Assessing the work of the LGPS Pension Fund actuary (Hymans Robertson) and the Firefighters pension actuary (Hymans Robertson) including the assumptions they have used. We relied on the work of PWC, consulting actuaries commissioned by the National Audit Office for all local government sector auditors, and considered any relevant reviews by the EY actuarial team. ‣ Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19. ‣ Reviewed the Authority's calculation of the impact of the 'McCloud' and 'Goodwin' judgements 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. Our conclusion on the work performed is that that the net pension liability is fairly stated and accurately disclosed in the Authority's Statement of Accounts.

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 land and buildings in property, plant and equipment (PPE) represent significant balances in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	We performed the procedures described in our audit plan and: ‣ Considered the work performed by the Authority's valuers, Flude Commercial, including 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 valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); ‣ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Local Authority Accounting Code of Practice for PPE. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ‣ 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; and ‣ Tested to confirm that accounting entries have been correctly processed in the financial statements. We also noted that the Authority's 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 Authority's accounts. Our conclusion on the work performed is that: ‣ Nothing has come to our attention regarding the adequacy of the valuers' scope of work, their professional capabilities and the results from their work; ‣ Based on our samples selected, the valuers assumptions are materially accurate, i.e. correct floor plans and price per square metre used; ‣ Assets not subject to valuation have not been materially misstated; ‣ Accounting entries have been processed correctly in the financial statements; Consequently, we are satisfied that the valuation of property, plant and equipment is fairly stated and appropriately disclosed within the Authority's financial statements.

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 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.	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 management's going concern assessment and confirmed their conclusion that the Authority remains a going concern is based on reasonable and supportable assumptions. We also reviewed management's updated going concern disclosure and confirmed it was sufficiently detailed, transparent and accurately reflected management's underlying going concern assessment. Our conclusion was that the Authority has sufficient reserves to cope with the impact of Covid-19, and sufficient liquidity. We did not identify indications of material uncertainty, and are satisfied with the Authority's disclosure that has been added to the accounts. There are no matters to be emphasised in our audit report.

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 £1.133m (2019: £1.039m), which is 2% of gross expenditure on provision of services reported in the accounts of £56.7 million. We consider gross expenditure on provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority. We determined planning materiality for the Fire Fighters' Pension Fund to be £236k (2019: £231k).
Reporting threshold	We agreed with the Scrutiny & Audit Panel that we would report to the Panel all audit differences in excess of £56k (2019: £52k) in the main financial statements and £12k (2019: £12k) in the Fire Fighters' Pension Fund financial statements.

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. We audit these fully given their inherent sensitive nature.
- Related party transactions. We consider any related parties in terms of the underlying relationship and potential influence, and not simply the overall values disclosed.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations. There were no uncorrected misstatements reported.

Section 4

Value for Money

Value for Money

We are required to consider whether the Authority 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:

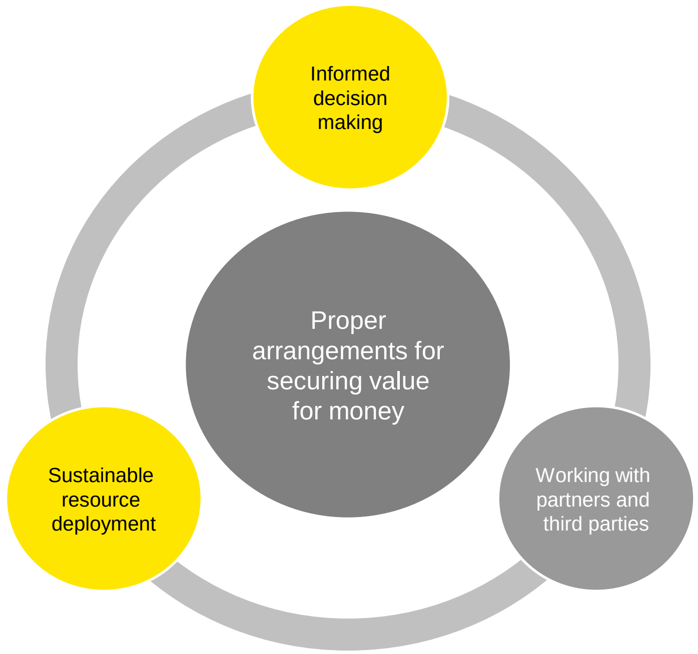
- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

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 audited 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.

We did not identify any significant weaknesses in the Authority's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 30 November 2020.



Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The Authority 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 Authority'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 Authority 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 Authority 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.

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 Strategy & Audit Panel on 26 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.

Other Reporting Issues (cont'd)

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 substantial audit approach and did not test the operation of controls.

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 Authority is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	The CIPFA LASAAC Local Authority Accounting Board has recently announced the implementation of this standard will be deferred until the 2022/23 financial year. This is in response to the ongoing pandemic and the impact on local authority finance teams. The Board has indicated this will be for one year only and there is no intention to grant any further extensions based on lack of preparedness. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.	Whilst there is a further delay in implementation, it is clear is that the Authority will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Authority must therefore ensure that all lease arrangements are fully documented.

Section 7

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 – Code work	23,690	23,690	23,690	23,690
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (see next page)	27,553			Nil
Revised Proposed Scale Fee	**51,243**			**23,690**
Additional work required for Going Concern (see Note 1)	944			N/A
Additional work required for significant risks included in Audit Plan (see Note 2)	1,715			N/A
Additional Covid-19 related costs (see Note 3)	1,683			N/A
Total scale fee variation	**4,342**			
Total Audit Fee	**55,585**			**23,690**

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 12 May 2020. Our discussion with management reached agreement over certain aspects of the proposed scale fee which was the additional work required for going concern. 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 management's 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.

Audit Fees continued

Additional fees for 2019/20

Note 1 - Additional work required for Going Concern:
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 with heightened scepticism, resulting in additional audit work.

Outcome: Management has agreed.

Note 2 - Additional work required for significant risks included in Audit Plan:
Included in Areas of Audit Focus are the Net Pension Liability Valuation and Property, Plant & Equipment Valuation, as management is required to make material judgemental inputs and apply estimation techniques in calculating year-end balances.

The impact of Covid-19 on financial markets required us to heighten our professional scepticism in confirming appropriateness of the underlying inputs and estimation techniques in determining the year-end values which resulted in additional audit work.

Outcome: Management has agreed.

Note 3 - Additional Covid-19 related costs:
Additional team meetings and discussions were held to reassess the risks to the audit and the Authority's control environment as a result of Covid-19 and consequential remote working of officials. This has translated into additional time being spent on the audit engagement.

The nature of remote working required daily audit team discussion meetings to ensure that the engagement was progressing in an efficient manner whilst providing the necessary coaching to staff members. This has translated into further additional time being spent on the audit engagement that was essential to completing a quality audit.

Outcome: Management has agreed.

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ED None

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