Gosport Borough Council

Annual Audit Letter for the year ended 31 March 2020

January 2021

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).

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 Annual Audit Letter 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 Gosport Borough 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 and Investment Property	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has 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 in the valuations at year-end. Since late March 2020 in the UK, Covid-19 has had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation. We do not know how long the government's measures will last or how long businesses will be impacted. Rental income is expected to fall as tenants may default on their rents or seek to negotiate rent reductions as they can no longer trade effectively. • These issues could have a significant impact on investment properties and we therefore raised a significant risk in relation to investment property valuations due to the materiality of this balance. • Whilst we have not changed our overall risk assessment for the valuation of property, plant and equipment, we have also undertaken additional procedures on assets within this balance valued on the basis of market information (fair value / existing use value).
► 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.
► Adoption of IFRS 16	The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of local authority financial statements has been deferred until 1 April 2022. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.
► 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)

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 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.

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.

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 16 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 27 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 Policy & Organisation Board on 25 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 Council.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the updated Audit Plan that we issued on 28 July 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 £500m. 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 27 November 2020.

Our detailed findings were reported to the Policy & Organisation Board on 25 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) 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 also focused specifically on capitalisation of expenditure as a potential area of manipulation, which is recorded as a separately identified significant risk on the next page of this report. Our work on estimates focussed on Investment Property valuation (identified as a significant risk estimate), and PPE valuation and IAS19 pension estimates (identified as high risk estimates). Our findings on these areas are set out on the subsequent pages in this section of our report. 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. • Evaluating the business rationale for significant unusual transactions. Further to this, we: • Inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding of the oversight given by those charged with governance of management's processes over fraud. • Considered the effectiveness of management's controls designed to address the risk of fraud. Our audit work has provided assurance that: • We have not identified any evidence of material management override. • We have not identified any instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions. • We have not identified any other transactions 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 (UK) 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. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax. This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing. The value of Property, Plant & Equipment (PPE) additions in 2019/20 was £7.4m.	Our work focussed on any judgements exercised in determining whether expenditure was capital in nature, and therefore appropriate to be capitalised rather than charged to the Comprehensive Income and Expenditure Statement. Our approach was as follows: • We selected a sample of additions, using lowered testing thresholds, to test and confirm the item was appropriate to capitalise through agreement to evidence such as invoices and capital expenditure authorisations. • When performing journals testing, we challenged entries that could be indicative of inappropriate capitalisation, such any significant journals transferring expenditure from non- capital codes to PPE or Investment Property additions, or from revenue to capital codes on the general ledger at the end of the year. We did not identify any indications of inappropriate capitalisation of revenue expenditure through the work performed.

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 Properties The fair value of Investment Property (IP) represents a significant balance in the Authority's accounts and is subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balance recorded in the balance sheet. 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. The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has 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 in the valuations at year-end. Since late March 2020 in the UK, Covid-19 has had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation. We do not know how long the government's measures will last or how long businesses will be impacted. Rental income is expected to fall as tenants may default on their rents or seek to negotiate rent reductions as they can no longer trade effectively. This could have a significant impact on investment properties and we have therefore raised a significant risk in relation to investment property valuations. The value of IP in the draft accounts at 31/03/2020 was £6.4m.	We: • Considered the work performed by the Authority's valuer, 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 and challenge the key assumptions used by the valuer. • Tested accounting entries have been correctly processed in the financial statements. • Ensured that appropriate disclosure has been made in the financial statements concerning the material uncertainty. • Obtained input from EY Real Estates, our internal specialists on asset valuations for Investment Properties, including inputs on market sentiment and how it has been reflected in the estimated rental values/yields. Our total sample for investment property valuations was sixteen items, with a total value of £6m. We identified two audit differences through our work, which were adjusted by management. We were therefore satisfied that Investment Properties are fairly stated and accurately disclosed in the audited Statement of Accounts.

Financial Statement Audit (cont'd)

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

Other Areas of Focus	Conclusion
Valuation of Land and Buildings The value of Property, Plant and Equipment (PPE) represents a significant balance in the Authority's accounts and is 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. In our audit plan update in July, we noted that the Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has 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 in the valuations at year-end. This impact is expected to affect PPE valued at Existing Use Value (EUV) and Fair Value (FV) as the valuation basis for these properties is linked to recent market transactions. We have not amended our overall risk assessment for these types of assets, but have undertaken additional procedures as noted below. The net book value of PPE in the draft accounts at 31/03/2020 was £188m.	We: • Considered the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. • Tested on a sample basis the accuracy of information used by the valuer in performing their valuations and challenged the valuer's key assumptions. • Considered the annual cycle of valuations to ensure that assets have been valued within a suitable 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. • Confirmed that accounting entries have been correctly processed in the financial statements. Additional procedures on Existing Use Value and Fair Value assets: • Considered the Authority's asset base by type of asset and valuation methodology. From this, we decided to obtain input from our internal specialists (EY Real Estates) in reviewing one asset valued at fair value, from our total land and buildings sample of five assets. • Ensured that appropriate disclosure has been made in the financial statements concerning the material uncertainty. We identified three audit differences through our work, which were adjusted by management. We were therefore satisfied that Land and Buildings are fairly stated and accurately disclosed in the audited Statement of Accounts.

Financial Statement Audit (cont’d)

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

Other Areas of Focus	Conclusion
Going Concern Disclosure Covid-19 has created a number of financial pressures throughout local government, increasing service demand and expenditure. The Authority has incurred additional expenditure in a number of areas of its operations and has experienced income losses in parking, commercial and leisure services. The extent of support from MHCLG has developed over time, but does not include 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 use of the going concern basis of preparation. Our audit procedures to review this included consideration of: • Current and developing environment; • Liquidity (operational and funding); • Mitigating factors; • Management information and forecasting; and • Sensitivities and stress testing. Our conclusion was that the council has sufficient reserves to cope with the impact of Covid-19, and sufficient liquidity. We did not identified indications of material uncertainty, and were satisfied with the Council’s disclosure that has been added to the accounts. There were no matters to be emphasised in our audit report.

Financial Statement Audit (cont’d)

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

Other Areas of Focus	Conclusion
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 Hampshire County Council. The Authority’s pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority’s balance sheet. The information disclosed is based on the IAS 19 report issued to the Authority 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) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. The net pension liability in the draft accounts at 31 March 2020 was £40.5m.	We: • Liaised with the auditors of Hampshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Southampton City Council. • Assessed the work of the Pension Fund actuary (Aon Hewitt) including the assumptions they used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering 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 As a result of our work, we identified one audit difference in the financial statements which management chose not to adjust. This was in relation to the rate of return assumptions used by the actuary of Hampshire Pension Fund to determine their estimate of the Council’s defined benefit pension liability. The final rate of return from the pension fund audit differed from that assumed by the actuary. The impact of the unadjusted audit difference was a £0.7m understatement of the net pension liability. We agreed with management’s assessment that the impact was not material. We had no other findings to report from our work

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 £1.23m (2019: £1.27m), which is 2% of gross revenue expenditure reported in the accounts of £61.55 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 Policy & Organisation Board that we would report to the Committee all audit differences in excess of £0.061m (2019: £0.064m).

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: These were tested in full as part of our audit.
- Related party transactions: These were tested in full as part of our audit.

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.

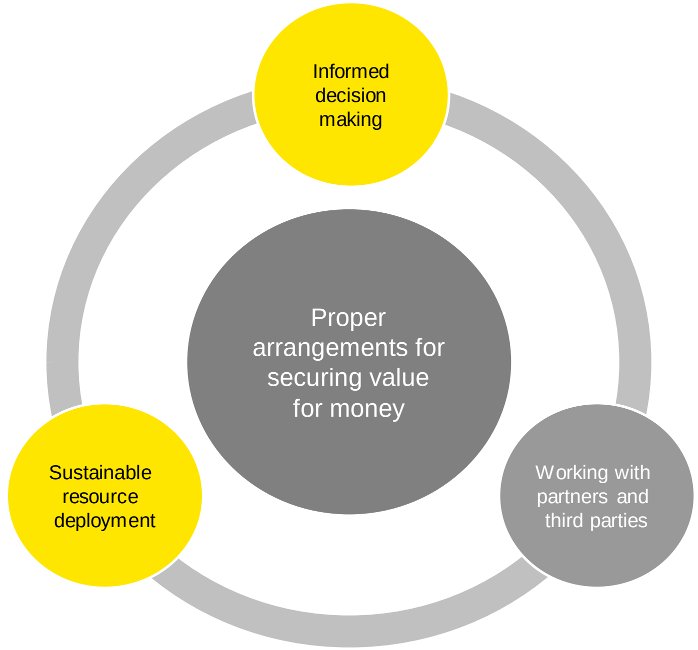
Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- 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. This includes thorough consideration of the impact of Covid-19 as noted above.

We therefore had no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



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.

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.

Other Reporting Issues (cont’d)

Independence

We communicated our assessment of independence in our Audit Results Report to the Policy & Organisation Board on 25 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 Policy & Organisation Board.

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

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	40,844	40,844	40,844	44,356
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (see page 28)	14,473			N/A
Revised Proposed Scale Fee	55,317			44,356
Covid 19 – Going Concern and consultation (1)	3,392			N/A
Covid 19 – increased property valuation risk / additional work required to address identified audit differences (1)	6,805			N/A
IAS 19 procedures (1)	801			N/A
Total Audit Fee	66,315			44,356

Note 1 - An additional scale fee of £10,998 has been applied to the planned fee based on the following items:

- The identification of Going Concern as an additional risk due to Covid-19 resulted in additional work including discussions, review/challenge of documents and cash flow forecasts, and consideration of proposed disclosure. This additional time has been recorded at £2,808. An additional cost of £584 has also been charged as we were required to consult with our professional practise department over the going concern disclosure in the accounts.
- The identification of the Valuation of Investment Properties as a significant risk resulted in additional work, notably larger sample sizes to be tested. In addition, we identified audit differences from our samples for PPE and investment property valuation, which required further work. This additional time has been recorded at £3,576.
- As part of the significant risk work over Investment property valuation, and increased procedures over PPE valuation, we were required to engage with our internal valuations specialists, EY Real Estates, to test a sample of assets. Based on the number of hours charged by EYRE, the additional cost is £3,229.
- An additional Scale Fee Variation of £801 has been submitted for IAS 19 Protocol Assurance provided by the Hampshire Pension Fund Auditors

These items are outside of the PSAA scale fee and remain subject to agreement with the Borough Treasurer and then PSAA.

The scale fee rebasing amount is subject to decision by PSAA (see page 28)

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 9 June 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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