

Hertsmere Borough Council

Annual Audit Letter for the year
ended 31 March 2020

28 January 2021

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

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

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

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

This Audit Results Report is prepared in the context of the Statement of responsibilities / 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 Hertsmere 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	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: <ul style="list-style-type: none">• Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and• Agree IPE to scanned documents or other system screenshots.
▶ Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

Executive Summary (cont'd)

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

Area of Work	Conclusion
Council audit opinion	
▶ 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).	The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 30 July 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 25 November 2020.

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

Neil Harris
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 30 July 2020 Audit Committee and also provided an update on 29 October 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 30 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 25 November 2020.

Our detailed findings were reported to the 30 July 2020 Audit Committee.

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

Significant Risk	Conclusion
<p>Misstatements due to fraud or error</p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>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.</p>	<p>We inquired with management about risks of fraud and the controls put in place to address those risks. We understood the oversight given by those charged with governance of management's processes for safeguarding against fraud and considered the effectiveness of management's controls designed to address the risk of fraud.</p> <p>We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We also assessed accounting estimates for evidence of management bias and evaluated the business rationale for significant unusual transactions.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied. Please also see following pages for our conclusion on property valuation, pension liability and business rates appeals provision.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.</p>

Financial Statement Audit (cont'd)

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

Significant Risk	Conclusion
<p>Risk of fraud in revenue and expenditure recognition</p> <p>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.</p> <p>The primary objective of Elstree Film Studios, in contrast to that of the Council, is income generation. Elstree Film Studios Limited income represents a significant income stream to Hertsmere Borough Council group on consolidation, £4.6m in 2019/20 and therefore presents a revenue recognition risk.</p>	<p>We have obtained appropriate working papers from the component auditor, BKL and we placed reliance on their work based on the following areas:</p> <ul style="list-style-type: none"> • Reviewed and tested revenue recognition policies • Reviewed and discussed with management any accounting estimates on revenue recognition for evidence of bias • Developed a testing strategy to test material revenue streams • Reviewed and tested revenue cut-off at the period end date <p>We did not identify any issues on income of Elstree Films Studios as at 31 March 2020.</p>
<p>Risk of error in the valuation of property, including investment properties</p> <p>Valuation of Land and Buildings</p> <p>The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council'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. The economic uncertainty currently being experienced may affect investment values for assets held (including both property assets and those held by pension funds). Consequently we may see unusual fluctuations in the values of certain assets.</p>	<p>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.</p> <p>The Council's external valuer, WHE have reported on the basis of 'material valuation uncertainty' as per VPS 3 and VGPA 10 of the RICS Red book Global. Consequently, less certainty- and a higher degree of caution attached on their review and valuation than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, WHE recommended to keep valuation portfolio under frequent review.</p> <p>We have identified, verified and tested the significant assumptions used by the Authority's valuer with the assistance of our specialist, EY Estates and have concluded that the valuation of all the properties tested falls within an acceptable and supportable range.</p> <p>Disclosures to the accounts relating to valuations has also been reviewed and we are satisfied with the material uncertainty disclosed consistent with the recommendation mentioned above.</p>

Financial Statement Audit (cont'd)

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

Other areas of audit focus	Conclusion
<p>Pension net liability valuation</p> <p>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 Hertfordshire County Council.</p> <p>The Council's pension fund deficit is a material estimated balance and the Code requires that this net liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £40.69 million.</p> <p>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) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We focused on aspects of the pension liability which could have a material impact on the financial statements, primarily:</p> <ul style="list-style-type: none"> • significant changes in assumptions made by the actuary; • the assessments of the actuary undertaken by PWC, as consulting actuary commissioned by the National Audit Office, and the EY actuarial team the assessments of the actuary undertaken by PWC and the EY actuarial team; and • Impact on the Authority's pension valuation of Covid-19 reported by the HPF auditor based on the pension fund assurance response. <p>An additional consideration in 2019/20 will be the impact of Covid-19 on the valuation of complex (Level 3) investments held by Hertfordshire Pension Fund (for example private equity investments) where valuations as at 31 March 2020 will have to be estimated. This is likely to impact on the IAS19 reports provided by the actuary and the assurances over asset values that are provided by the pension fund auditor, and consequently the assurance we are able to obtain over the net pension liability in the Council's accounts.</p> <p>Herts Pension Fund have found differences in testing the valuation of Pension Fund assets (Private equity, infrastructure, and pooled property) taking account of the impact of Covid-19 from December 2019 values to March 2020 and differences in the investment return of the fund used.</p> <p>These differences were not corrected because these differences are estimates and linked to the timing of Covid-19 and impact to the accounts are not material and will not cause material uncertainty or misstatements but have been included in the Letter of representation.</p>

Financial Statement Audit (cont'd)

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

Other areas of audit focus

Business Rates Appeals Provision valuation

Business rate appeals provisions are significant and subject to a higher degree of estimation assumptions. Management override risk associated with this element of provisions therefore we consider this to be a higher inherent risk.

The Council's Long term Business Rates Appeals Provisions totalled £2,965k as at 31 March 2019.

Conclusion

We assessed the work performed by the management's expert and our ability to place reliance on their work. We also reviewed the calculation of the NDR appeals provision against the supporting evidence and assessed the reasonableness of the calculation, ensuring it has been prepared in accordance with associated guidance and complying with IAS37.

We are satisfied that calculation is reasonable. The testing undertaken indicates the provision complies with the requirements of IAS37.

Financial Statement Audit (cont'd)

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

Other matters

Going concern

Covid-19 has created a number of financial pressures throughout public sector bodies. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19. This results in significant judgement to conclude whether events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Council's ability to continue as a going concern. This judgement will determine the appropriate disclosures to be made in the financial statements, which will be reflected in the audit report.

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 future government support, we have received a documented and detailed consideration to support management's assertion regarding the going concern basis and particularly with a view whether there are any material uncertainties for disclosure. We will review your going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We will consider whether you have included necessary disclosures regarding any material uncertainties that do exist.

We will consider whether these disclosures also include details of the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions (e.g. assumed duration of Covid-19). Our audit procedures to review these will include consideration of:

- Current and developing environment;
- Liquidity (operational and funding);
- Mitigating factors;
- Management information and forecasting;
- Sensitivities and stress testing; and
- Challenge of management's assessment, by thorough testing of the supporting evidence and consideration of the risk of management bias

Due to the range and complexity of work required to obtain our audit assurance, which this year has been exacerbated by the potential impact of covid-19, we anticipate this work will be ongoing at the date of the Audit Committee. In addition, the consideration of going concern is 12 months from the date of authorisation of the accounts and therefore will need to be considered up to the point of sign off.

Conclusion

We have reviewed the finance teams documented assessment and proposed disclosure on going concern. We have also reviewed this alongside the Council's revenue outturn and medium term financial strategy reports which have been updated to take account of the budget and cashflow implications arising from Covid-19. We are not minded to challenge the Council's proposed disclosures, which represent a true and fair view of the Council's viability and liquidity position which remain relatively strong when considering cashflow and available to use reserves.

We have therefore concluded that adoption of the going concern assumption for the Council is appropriate, and that no material uncertainty exists.

Financial Statement Audit (cont'd)

Our application of materiality

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

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £1.27m (2019: £1.34m), which is 75% gross expenditure on provision of services reported in the accounts of £63.58 million.</p> <p>We consider gross expenditure on provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £64k (2019: £67k)</p>

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

- ▶ Remuneration disclosures including any severance payments, exit packages, termination benefits, members' allowances and related party transactions. We set materiality at £10k which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this. We would also consider as material an error that affects the banding shown in a disclosure as material (remuneration and exit packages).

Section 4

Value for Money



Value for Money

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

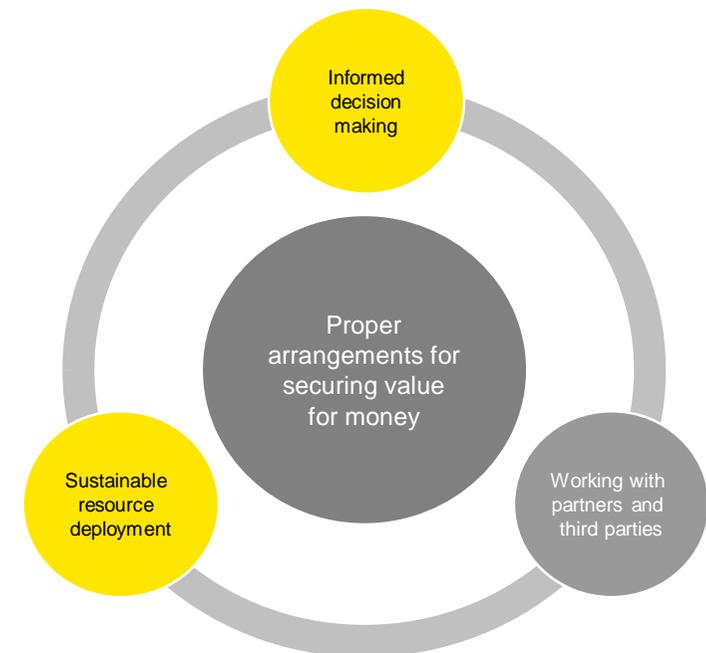
Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

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

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' 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 identified one significant risk in relation to these arrangements. The table below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

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



Value for Money (cont'd)

[We therefore issued an unqualified value for money conclusion on 25 November 2020.

Significant Risk	Conclusion
<p>During 2019/20, we have received updates, had discussions and reviewed reports on the Council's proposed senior management restructure and organisational change. We expect to receive further decision making papers to review by February 2020.</p> <p>From our work to date, we have specifically sought assurances on the safeguards the Council has put in place for:</p> <ul style="list-style-type: none">• Ensuring the Council obtained appropriate legal and professional advice associated with the ring-fencing of Managing Director post to the existing Corporate Director subject to an assessment panel.• Securing appropriate capacity, skills and fulfilment of the key statutory officer roles, particularly the S151 officer, if the existing Corporate Director (who acts as the S151) becomes the Managing Director and Head of Paid Service.• Exploring alternative options and choices in arriving at its proposed management restructure for full Council approval.	<p>We have reviewed key Council decision making papers, any legal and professional advice the Council received during its decision making process and tested the completeness, presentation and disclosure of the senior management restructure and associated cost implications in the Council's key decision making papers and as appropriate the Council's financial statements and governance statement.</p> <p>We are assured that there has been an independent process, with appropriate advice from EELGA, on the Managing Director post and alignment to the current Corporate Director responsibilities. We are more assured that no decisions have been taken on the substantive s151 duties until the MD appointment has been resolved. We are content the Council explored a number of options to allow members to make an informed decision on the senior management team capacity, capability, skills and how each of the statutory officer roles would be exercised.</p>
<p>Arrangement that the risk affect:</p> <ul style="list-style-type: none">• Take informed decisions	<p>The appointment of an Executive Director to support the Managing Director and Head of the Paid Service is a key step forward in the implementation of the new senior management structure in the Council.</p> <p>It closes the position at and shortly after year-end on the statutory officer roles and arrangements the Council has put in place. We are satisfied with these arrangements.</p>

A photograph of a business meeting in progress. Several people are gathered around a large wooden conference table, looking at documents. A woman with blonde hair is leaning forward, resting her chin on her hand, appearing thoughtful. A man in a blue shirt and red tie is standing in the background. The scene is brightly lit, suggesting a modern office environment.

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

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 30 July 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.

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	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2021/22 financial year.</p> <p>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.</p> <p>There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be updated, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the revised 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>

A hand is holding a bright yellow rectangular box over a row of file folders. The folders are arranged in a row, each containing a stack of papers. The folders have colored tabs: white, light blue, light green, light orange, white, light blue, and light green. The background is a textured, light-colored surface.

Section 7

Audit Fees

Audit Fees

We confirm that we have undertaken non-audit work in relation to the housing subsidy grant claim. Non audit work is work not carried out under the Code. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

Our proposed audit fees are set out below.

Description	Final Fee 2019/20 £	Scale/Planned Fee 2019/20 £	Final Fee 2018/10 £
Total Audit Fee – Code work	38,012	38,012	38,012
Total Audit Fee – Variation	16,158***	n/a	11,915
Total Audit Fee	54,170	38,012	49,927
Non-audit work – Claims and returns	TBC	13,815	37,784

*We are in an unprecedented period of change. A combination of pressures are impacting Local Audit and has meant that the sustainability of delivery is now a real challenge.

*** For 2019/20, We have also communicated with the Head of Finance and Business Services on our proposed baseline fee for the audit to reflect the professional, regulatory and risk environment we are operating in and how this translates in to a fee to deliver sustainable high quality audits. The proposed baseline fee of £62,345 has been communicated to PSAA to determine. Beyond that, within the existing scale fees set by PSAA, these are impacted by a range of factors as communicated in the audit planning board report on 30 March 2020 which will result in additional fee. We are proposing a scale fee variation for the following:

- Additional work that will be performed in relation to group consolidation.
- The additional risks presented by several areas of the Council's financial statements which require additional audit procedures and the need to engage specialists. These include, but are not limited to the valuation of property and the net pension liability.
- Additional work that will be required to address the value for money risks identified.

In addition to the above, we reported the following items in our audit results report:

- We have performed additional work in identifying the business and financial reporting risks the Council are facing as a result of current economic conditions related to the Covid-19 outbreak including documenting changes to internal controls
- We performed review and will undergo consultation processes associated with disclosures on any material uncertainties disclosed with valuations, documented basis for going concern to consider the Authority's assessment and events after the reporting period
- We have performed additional testing in expenditures in response to the error identified (extended testing)

As a result of these factors, our proposed variation to the 2019/20 audit scale fee is £16,158. This means our proposed fee using PSAAs current scale fees is £54,170. We will share the details of the £16,158 fee variation with the Head of Finance and Business Services. Any increase to the planned fee has to be approved by PSAA. We have not yet commenced our work on Housing Benefits and will report the final fee to the Audit Committee on completion.

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