

Crawley Borough Council

**Audit Committee**

**Supplementary Agenda**

**Thursday, 29 April 2021**



Chief Executive

**5 Confirmed Total Final External Audit Fees for 2019/20**

Pages

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In response to this special meeting of the Audit Committee, enclosed is a statement from EY, external auditor to Crawley Borough Council, for the Audit Committee. The statement will be also read out at the meeting.

*NOTE: The Chair has agreed that, although this report and information was not available for at least five clear days before the meeting, there are special circumstances justifying its urgent consideration.*



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# Agenda Item 5

Statement from EY, external auditor to Crawley Borough Council, for the Audit Committee meeting of 29 April 2021.

We appreciate the opportunity to make this statement to you as a committee. As we have previously discussed the audit of the 2019/20 accounts presented several different challenges, including ongoing pressures from the changes in the regulatory environment for external audit and specific responses to the Covid-19 pandemic.

We understand that the audit committee will always take a keen interest in the level of work undertaken by the external auditors, and that as Those Charged With Governance (TCWG), the assurance received from the external audit is a key component of the your overall responsibilities.

However, we would highlight several key points that are relevant to the amount of work needed to provide you with that independent opinion and by implication the fee that we believe reflects that level of work.

- All EY's external audits in the UK are conducted in line with the quality standards set by the Financial Reporting Council which sets out how we do our work; with integrity, objectivity and independence. We are proud of the fact that as a firm, the quality of our work has meant that we have no regulatory fines or sanctions imposed by the FRC in the recent past.
- The National Audit Office sets the Code of Audit Practice which defines what we are required to do for an audit under the Local Audit and Accountability Act 2014. That includes important considerations as part of the discussion of the 2019/20 audit:
  - The work should be risk-based and proportionate, designed to meet an auditor's statutory responsibilities
  - Auditors should apply professional judgement to tailor the work required to the circumstances and audit risks identified and apply professional scepticism in carrying out their work.
- Therefore, external audit is not a service like others that the Council may procure as the scope of work is decided by the independent auditor in line with the above standards and not directed by management or members.
- The unique structure of this appointment means that the fee determination process for any additional work is with Public Sector Audit Appointments, who are able to make a comparison of additional scope and audit effort required, across all providers and all audits under their contract. Whilst it is hoped that the audited body and auditor will agree the level of fee arising from any additional work agreed, if this is not the case the requirement is for the auditor to have communicated the additional work to TCWG, and PSAA will then determine an appropriate fee for the scope of work undertaken.

As we have explained in previous communication, we believe that the requirements for an external audit have changed substantially in recent years. We would note that 10 years ago the audit fee for Crawley was in excess of £150,000. Whilst significant efficiencies have been realised in the intervening years allowing audit scale fees across local government to be substantially reduced, the last few years have seen a change in the cost of delivering external audits which, up to this point, the firms providing the service have absorbed.

As a committee you have indicated in previous meetings that you are not content with the proposal to reset the scale fee to £77,691 (from £50,291). We have noted this and agreed with Karen Hayes that we will ask PSAA to determine the proposed variation.

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As part of our reporting in our Audit Results Report we indicated that primarily due to the Covid-19 pandemic we needed to undertake additional procedures not covered by the scale fee, to reflect the heightened risk as result of the issues it presented. We have captured these amounts in our Annual Audit Letter, but in summary they are:

- £4,171 for additional work undertaken on property valuations as a result of the Council valuer's material uncertainty disclosure and the significant additional testing of property valuations and underlying assumptions, the results of which were reported in the Audit Results Report.
- £8,173 for the impact of Covid-19 on the 19/20 audit procedures covering both the technical and logistical challenges it presented. Considering the circumstances, we needed to revisit our materiality levels, risks and documentation in relation to Covid-19. Additionally, we obtained and reviewed management's updated assessment of going concern, with subsequent additional procedures on areas including cashflow forecasts and disclosures in both the narrative statement and notes to the financial statements. This was supplemented with a robust consultation process on the wording of our audit report so as a firm we are sure that each opinion issued meets the high-quality standards that you as committee would expect.
- £789 for additional work related to the EFA and CIES restatement due to change in internal reporting structure, as flagged in our Audit Planning Report.

We can assure you that the amounts of additional audit work outlined above which are connected to the pandemic are consistent with amounts incurred on similar sized audits across our portfolio. As such we consider them to be fair and representative of the work required to deliver your audit.

We understand that the Audit Committee may choose to refer this matter to Full Council. We believe the existing process with PSAA is a sufficient safeguard for the Council and that there is no requirement, or additional value, in referring the matter and as such as we would reserve the right not to attend such a meeting, should the committee take this course of action.

As already notified to Karen Hayes, changes within our wider portfolio means that Andrew Brittain will be passing over responsibility as Engagement Lead for the 2020/21 Council audit to Liz Jackson, but we are collectively happy to consider any further questions or clarifications that the committee may have on this matter.