

23 May 2023

Your ref: Section 151 Officer

Dear Section 151 Officer colleagues

Local Audit market update

National delivery of Local Audit

We are delighted to have been successful in our bid to the PSAA to remain a supplier of local public audit, during which we sought to demonstrate our track record and continued commitment to providing high quality audit in this sector. We share PSAA and other stakeholders' views that the audit market provides high quality assurance and remains sustainable into, and beyond, the period of this next contract.

The national picture of delivery for local audit continues to remain challenging, with the number of audits in progress across the sector remaining high. The issues identified in the 2020 independent review by Sir Tony Redmond (Redmond Review) on financial reporting and external audit continues to impact on the timelines to deliver a quality audit to audited bodies. Those factors impacting the audit profession are not operating in isolation and delivery of external audit is also being impacted by several other key factors within individual Authorities.

We also acknowledge DLUHC's letter to Authorities sent on 14 March 2023. We are pleased to see that this requests collaborative working to resolve any historical open audits, including shorter term requests to provide Authorities, specifically Audit Committees, with a position statement, to accompany those being provided separately by management. Your key audit partner will be liaising with you directly about the timeline for your open audits and subsequent reporting to your Audit Committee.

Transition between the existing and new PSAA contract

The delivery of the existing PSAA contract audits, as well as planning for the transition to the new contract from 2023/24 is a key priority for us.

If your audit is being transitioned to another firm, transition timing will be impacted by delayed audits, so communication will be key. We will set out a timeline, and agree this with you and the incoming auditor, to ensure all parties can plan their involvement efficiently to avoid duplication of effort. This will include agreeing an exit plan with you to ensure delivery to agreed deadlines, and proactively establishing key meetings required with the incoming auditor to ensure that they have access to the information they need as part of the transition.

Where we remain your auditor, we will continue to liaise with you and set out timelines for the delivery of ongoing and future audits, as well as establishing some key principles on our expectations of you, both in preparing for, and engaging during the audit.

Expected delivery timelines

Our aim is to provide you with a clear and transparent view of the current situation and work with you to complete both the existing programme of open audits and those we are yet to commence.

As part of our continued resource management and planning for the transition between the PSAA contracts we are estimating that our expected delivery of audits under the existing contract (i.e. those relating to 2022/23 and earlier years) will extend through 2024. There are a number of factors that will continue to impact this estimated timeline. We wanted to reassure you that we are continuing to invest significantly in additional headcount in addressing capacity pressures in a sustainable way, noting that increasing audit capacity is only one of the sector-wide improvement actions referred to in the Redmond

Review. Therefore, we will continue to revisit our plans on a regular basis and communicate any changes with you.

At a local team level, the phasing of the current programme of work is being impacted by the number of historic audits that remain in progress. In addition, all audited bodies geographically located across South Yorkshire, the Midlands and Northwest are to be transitioned to other firms creating a high level of demand and pressure within the team. We are keen to deliver and facilitate effective transition arrangements in the most equitable and efficient way.

For open 2019/20, 2020/21 and 2021/22 audits our aspiration is to: sign the earlier audit and substantially progress the subsequent audit by the end of December 2023; with a small number being conducted in the early part of 2024. We are currently working through our phasing of these audits and will be able to share the proposed timing of your audits in due course.

Therefore, we will not be commencing 2022/23 financial year audits prior to this, although where capacity allows, we will evaluate the best way to utilise this within our portfolio based on a number of factors, including size and risk. We are reviewing our plans to work through this segment of work, so we can give you a better indication of the timing of your 2022/23 audit later in the year.

Other services

We are cognisant of the considerable amount of change and challenges in both the local audit market but also in the provision of Housing Benefit certification work and other assurance statements. We want to ensure we have the capacity to deliver existing commitments and provide the following updates:

Housing benefits

We are reviewing our approach to Housing Benefit work from 2023/24 and note that currently:

- In light of the recent PSAA audit procurement and the resulting changes in appointed auditor, where EY will no longer be your external auditor from 2023/24, we will no longer be able to be your reporting accountant for Housing Benefit.
- For those of you where EY continues to be your appointed auditor in 2023/24, we are not yet in a position to be able to confirm whether we can be your reporting accountant, but we will update you through your normal contacts in due course.

Teacher's Pension and CFB06

Having assessed the small number of assurance services we provide in these areas, as well as evaluating the pressures on audit delivery outlined above, we have made the decision that we will not be able to commit to delivering these services in future years. Our decision is based on our continued commitment to providing high quality audits in this extremely important sector and supporting the local audit market in addressing the matters set out in this letter. For any returns where the work has commenced, we will complete the existing assurance statement over the returns.

Thank you for your understanding. We are happy to discuss the issues with you on an engagement level with the relevant Audit Partner, or indeed our Sector Lead, Janet Dawson.

Yours sincerely

for and on behalf of Ernst & Young LLP



Hayley Clark – Partner



Hassan Rohimun - Partner