

Headquarters, Newsham Court, Pincents Kiln, Calcot, Reading, RG31 7SD



Mr Andrew Brittain
Ernst and Young LLP
Apex Plaza
Reading
RG1 1YE

Date: 5 August 2020

Dear Andrew

Audit Fees 2019/20

As you are aware, it was agreed at the meeting of our Audit and Governance Committee on 30 July 2020 that I should write on behalf of the Committee to express our opposition to your proposed fee increase of 91%.

Your Audit Planning Report states that you believe that the current fee of £26,180 is insufficient to cover the costs of the audit. Whilst the Committee acknowledges that EY is facing increased audit burdens in relation to some of its local government audits, we are struggling to understand why you believe that the costs in relation to our audit have nearly doubled.

Having considered your arguments, the Committee recognises only one area of increasing audit work that could justify a fee increase which is around the valuation of pension liabilities. We acknowledge that, following on from the McCloud judgment, additional audit work was required to sign off the 2018/19 accounts and that PSAA agreed an uplift in audit fees to £33,040 to account for this.

The other reasons that you cite to justify the fee increase do not apply to the audit of our accounts. Whilst the Committee recognises the difficulty in establishing reliable property valuations, the reality is that, in relation to our audit, there is a limit to the amount of work that you can undertake, given that our property portfolio is small and consists mainly of operational buildings and a headquarters. We do not have council dwellings nor have we invested in commercial property and the small size of our portfolio means that we obtain an annual valuation of all of our properties by a RICS qualified surveyor.

You also mention the growth of commercialisation, speculative ventures and investments as drivers of increasing audit costs. Whilst this may be true for some of your other clients, this Authority does not enter into speculative ventures and risky investments. In fact, in this regard, your activity in relation to our audit should be decreasing as we have closed down our trading company.

Reference is made to the increasing compliance costs that you face from regulators. The purpose of increased regulation stems from a concern that auditors may sign off accounts without fully taking into account the extreme precariousness of some local authorities' unsound

Trevor Ferguson • Chief Fire Officer



commercial ventures and high risk investments, none of which applies to this Authority. I am sure you would have no trouble explaining your strategy in relation to the audit of our accounts to any regulator.

Finally, EY points to its need to invest in its audit teams over a five to ten year period. Whilst this is clearly necessary and welcome, such costs would have been factored into your tender price when you submitted your bid to undertake local authority audits.

On this basis of the arguments that you have put forward, we do not believe that a fee increase of 91% is justified and we would ask that you revisit the model that you use to allocate costs across local authority clients.

Yours sincerely,

A handwritten signature in black ink that reads "Tina McKenzie-Boyle". The signature is written in a cursive style with a long horizontal line above the first few letters.

Tina McKenzie-Boyle
Chairman of the Audit & Governance Committee

CC: Tony Crawley, Chief Executive, PSAA