

SCRUTINY & AUDIT PANEL

Minutes of the meeting of the SCRUTINY & AUDIT PANEL held via Webex at 10.00 am on Thursday, 26 November 2020.

Present: Councillors Barnes (Chairman), Hamilton, Lambert, Osborne, Scott, Smith and Taylor

Also present: D Whittaker (Chief Fire Officer & Chief Executive), M O'Brien (Deputy Chief Fire Officer), M Matthews (Temporary Assistant Chief Fire Officer), D Savage (Assistant Director Resources/Treasurer), L Woodley (Deputy Monitoring Officer), H Scott-Youldon, N Cusack, P Jassal, H Thompson (EY), S Van Der Merwe (EY), J Knightley, C Porter, E Simpkin, A Blanshard.

30 Declarations of Interest

There were none.

31 Apologies for Absence

There were none.

32 Notification of items which the Chairman considers urgent and proposes to take at the end of the agenda/Chairman's business items

The Chairman informed the Panel of a change of membership for the Labour Group. The Panel welcomed Cllr Scott to his new role as panel member and recorded their thanks for Cllr Evans for her hard work during her time as a panel member.

The Chairman welcomed representatives from EY who were attending the meeting to inform on the results of their audit and to respond to any questions from the panel.

33 Callover

Members reserved the following items for debate:

34. External Auditor's Audit Results Report and Statement of Accounts 2019/20

35. Public Sector Audit Appointments (PSAA) Consultation on Audit Fee Variations

34 External Auditor's Audit Results Report and Statement of Accounts 2019/20

The Panel received the report of the Assistant Director Resources/Treasurer (ADR/T) presenting the results of the External Auditor's Results Report (ISA 260) and to report an unqualified opinion on the Authority's 2019/20

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Statement of Accounts. The Authority's External Auditor, Ernst & Young (EY), was obliged to produce an Audit Results Report on the outcome of the audit of the Authority's financial statements. EY had substantially completed its audit and, subject to concluding some outstanding matters, expected to issue an unqualified audit opinion in advance of the statutory deadline. It had been a most challenging year in terms of getting both the Accounts and Audit completed largely to the impacts of the Covid-19 pandemic. The report also included a proposed fee variation, at the request of Panel members, it was agreed to discuss this separately to the audit and accounts.

The ADR/T recorded his thanks to ESFRS, Orbis and EY colleagues for all their work in this challenging year. Helen Thompson, Associate Partner EY, presented the audit results report to the panel. Stephan van der Merwe was introduced having joined EY during the Covid-19 lockdown. EY reiterated there had been unprecedented challenges this year which had significantly impacted the audit work, this had been recognised nationally by changing the deadline from 31 July to 30 November for all local authority bodies.

The Panel were informed of some key changes to EY's risk assessment as a result of Covid-19, these included valuation of property plant and equipment (regarding the uncertain impact on markets) and disclosures on going concern (financial plans for 20/21 and medium term financial plans would need revision for Covid-19). The complexity of the East Sussex Pension Fund's investments had also impacted the completion of the report, EY were reliant on the work of Grant Thornton, and were still awaiting a letter of assurance. It was made clear that there were no known issues. Therefore, they intended to issue an unqualified opinion in time to meet the deadline.

The areas of focus during the audit had been the risk of fraud and error in revenue and expenditure, net pension liability, valuation of property and equipment. The audit should be free of fraud and error, although management roles were in a unique position to commit fraud, the audit tested journals and estimates for any evidence of management bias. No evidence had been identified of any management override, bias or any unusual transactions. The audit had also focused on net pension liability and actuaries had been engaged to test both Local Government and the Firefighter pension schemes. Whilst they were still awaiting the assurance letter, the conclusion was that there was no indication that net liability had been misstated. With regards to valuation of property, plant and equipment, the audit had focussed on the work of the Authority's valuer and assets not subject to revaluation throughout the year. Finally with regards the matter of Going Concern the audit had assessed this and the management's assessment set out in the Financial Statement was sufficient. During the meeting, the Auditors were able to confirm that the final outstanding letter from Grant Thornton had been received and they were therefore able to confirm that they would meet the deadline for the publication of their opinion.

Members were concerned that pension funding from central government being provided in the form of an annual grant presented a risk to the Authority. The ADR/T reassured the panel that in terms of the Accounts presented at

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this meeting it was not an issue. The Indication was that this funding had been extended into 2021/22 but clearly, longer term, financial uncertainty impacted on future planning. In terms of Going Concern, ESFRS were able to prove their financial stability through the MTFP.

The Panel then discussed the proposed variation to this year's Audit Fee. Members were keen to reassure EY that their comments on this proposed variation were not a reflection on their exemplary audit work, however, they were surprised to see the proposed fee increase and the reasons attached to it. The Panel stated that the Chancellor had provided support to allow employers to set up their staff to work from home and they considered the proposed increase to be opportunistic. The ADR/T was asked what would happen if the proposed fee variation was refused and payment made at the existing rate. The ADR/T explained that for a variation to the Fee the Auditor must ask the audited body and then go to PSAA. The variation was also related to the impact of regulatory changes which were primarily driven by failures in the private sector. With regards to those costs attributed to Covid-19, the ADR/T confirmed that they would take direction from the panel but that ultimately it would be up to PSAA to agree the variation.

EY thanked the Panel for separating the discussion on these matters, and were permitted to make a couple of points. They explained how Audit Fees were set using a specified formula and then changed and reduced by a certain percentage given the influence of different contracts and PSAA. This was done with little regard given to risks in the wider world and also in the audited body. An example given was the increased commercial activity within some local authorities. The Regulators did not see a difference between Private and Public sectors and all of this came together to impact fees. The average Fire Authority audit fee had changed and although this might not seem the right time, auditors were required to prove to PSAA that they were covering their own costs.

Members thanked the ADR/T and EY for their explanations which had been extremely helpful and somewhat reassuring, it would still be of interest for the panel to see a breakdown of the costs, particularly those relating to Covid-19, and that this should be considered after consultation with the Panel Chairman. The CFO asked for a point of clarification from EY, could they explain was the percentage differential across the board or had it been assessed against risk? EY drew the panels' attention to page 40 of the agenda which provided a breakdown of the fee, and focussed on the additional costs on this audit, the percentage change was just related to ESFRS. In terms of the other fee, this was a scale fee, as a firm it was not simply a case of a set percentage increase, EY worked on an audit by audit basis and consideration was given to an organisations risks, reserve size etc., there was no baseline percentage uplift.

RESOLVED – That the Panel agreed to:

- i. note the External Auditor's Audit Results Report (ISA 260);

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- ii. request that officers review the audit fees with EY, with particular regard to the Covid-19 related elements, with a decision taken by the ADR/T and CFO after consultation with the Chairman of the Panel;
- iii. authorise the Assistant Director Resources / Treasurer and the Panel Chairman to use electronic signatures to sign the formal letter of representation to the External Auditor; and
- iv. approve the 2019/20 Statement of Accounts for publication.

35 Public Sector Audit Appointments (PSAA) Consultation on Audit Fee Variations

The Panel considered the Report of the Assistant Director Resources/Treasurer informing them of the PSAA (Public Sector Audit Appointments) consultation on audit fee variations and to seek its views on the questions asked by the PSAA. The PSAA was consulting on proposed new arrangements for determining fee variations for local audits of opted-in bodies from audits of 2020/21 accounts onwards. The current fee variations process required the auditor to discuss all proposed variations with the audited body before submitting them to PSAA for determination. Feedback from both auditors and audited bodies frequently referred to the practical challenges and limited value of local discussions about proposed variations which relate to those factors which affect most or all audited bodies. Many contributors had asked PSAA to take a national lead on additional fees, where possible removing the need for local negotiations.

PSAA was proposing a new approach, based on two types of variation:

- **national variations**, required for changes that relate to the conduct of all or most audits, such as changes to the auditing and accounting codes, standards and regulatory requirements, where a standard cost can be reasonably estimated; and
- **local variations**, required for issues that relate to local factors arising from the conduct of a particular audit, such as the additional audit work required if accounts reflect complex transactions that are not built into the scale fee, or where working papers are poorly prepared, or for work relating to an auditor's statutory responsibilities such as objections, statutory recommendations or public interest reports.

The Panel was asked to give its thoughts on the consultation questions and the proposals in order that a response could be submitted. The ADR/T reminded Members of the context of this consultation, particularly in relation to the Redmond Review which the Panel had considered at its meeting on 12 November 2020. By and large, Officers were supportive of the proposal to base the new approach on the national local variations detailed above.

There were some concerns about the suggestion to increase Day rates by 25%, it was not clear where this percentage had come from, it was recognised

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that there were increasing costs, but there was a desire for PSAA to be clear on the basis of 25% and why they were reasonable.

There were two issues presented to the Panel, these were that the PSAA ought to work with the regulator to reduce the impact of regulations on costs, there was a need to consider how these would impact on Public Sector organisations, the impact would not be the same as it would in the Private Sector. The second issue was targeted at central Government, the changes felt like a new burden and therefore, the costs should be borne by them.

The CFO added that the accessibility of audit and accounts reports needed to be considered, in order to allow proper public scrutiny. The current format could be impenetrable even to professionals. The ADR/T confirmed that this was an issue raised in the Redmond Review but rested primarily with CIPFA/LASAAC who published the Code of Practice for Local Authority Accounts. The Panel agreed the purpose of these reports should be about reporting and explaining to the public what and why the organisation had spent what it had and that the Auditors were happy, but it was decided that this was not appropriate for this consultation.

A lengthy discussion followed during which Members agreed that the position was complex, the distinction between the public and private sector was becoming increasingly blurred, particularly with the increased investment by Local Authorities in property. Also more Local Authorities were setting up companies, particularly those providing housing and energy. It was deemed important that the PSAA addressed this. Fire Authorities by contrast have very limited exposure to these type of commercial activities and therefore should be approached differently. It was hoped by the Panel that there would be some future consideration by Government of how the role of Local Authorities was changing. In principle it was understood that charges should increase, but there was concern about the proposed flat rate approach. There was some additional concern about the national standards and whether this may remove some local control, it was felt that the minimum possible should be dealt with by national variations. The Panel agreed that simplification was essential in order to increase public understanding, engagement and accountability.

It was further discussed that there should be greater definition made by PSAA of the national v. local variations. There was also a request that PSAA give consideration to the potential need to bring in specialists and therefore there needed to be the ability to reflect this in audit rates.

It was agreed that the ADR/T would construct a draft response and, after consultation with the Panel chairman it would be shared with all members prior to submission before the deadline.

RESOLVED – That the Panel agreed to:

- i. consider the consultation document and its proposals;

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- ii. directed officers as to its preferred response; and
- iii. that the Panel delegated the power to finalise the response to the PSAA Consultation to the Assistant Director Resources/Treasurer, after consultation with the Chairman.

The meeting concluded at 11.22 am

Signed

Chairman

Dated this _____ day of _____ 2019