



East Sussex Fire  
Authority

Audit progress update

Year Ended 31 March 2020

May 2020



Scrutiny and Audit Panel  
East Sussex Fire Authority  
Service Head Quarters  
Church Lane  
Lewes, East Sussex  
BN7 2DZ

6 May 2020

Dear Members

Audit Progress Report

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the Scrutiny and Audit Panel with an overview of the current status of the Authority's 2019/20 audit; and to set out a revised timeline for the 2019/20 audit. This report is a key mechanism in ensuring that our audit is aligned with the Panel's service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The 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 and further guidance (updated April 2018)” issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Scrutiny and Audit Panel and management of East Sussex Fire Authority in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Scrutiny and Audit Panel, and management of East Sussex Fire Authority those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Scrutiny and Audit Panel, and management of East Sussex Fire Authority for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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# Progress Update



# Status of the 2019/20 audit

## 2019/20 financial statements

Since issuing our Audit Plan in January 2020, we have completed our planning for the 2019/20 financial statements audit and progressed our value for money risk assessment. We have not identified any new financial statement or value for money risks through this work, however, we have identified two additional areas of audit focus as detailed on slide 6. Our significant risks are the same as reported in our 2019/20 annual audit plan.

We completed our interim visit in February 2020 and have made good progress. From completing the above procedures, we have not identified any issues which require your attention or have led to a change in our risk assessment for 2019/20.

We would like to thank Authority staff for their assistance with our 2019/20 audit to date.

## Impact of COVID-19 on Accounts and Audit Procedures

We outline below the key impacts of COVID-19 on our audit, as we understand them at 6 May 2020. The list is not exhaustive and will no doubt continue to change as the COVID-19 pandemic continues to unfold.

Amended Local Government draft accounts and audit timetable in response to COVID-19:

- MHCLG has published an amended timetable for the production of the 2019/20 annual accounts for Local Government bodies. The revised timetable includes changes to the dates for both the draft and final audited accounts.
- Authorities are encouraged to prepare their draft financial statements at their earliest convenience but no later than 31 August 2020.
- Authorities are required to have audited financial statements by 30 September 2020.

We note that East Sussex Fire Authority is aiming to draft the financial statements by 30 June 2020. While the Authority is making use of some of the additional time given to prepare the draft financial statements, the Authority's preference is to complete the majority of the audit by the end of July. We have therefore planned our audit to this timeline. However, there are various elements of the audit that will not be possible to complete until September 2020, due to reliance on the auditors of the East Sussex Pension Fund to provide their relevant assurances.

## Valuation of Property, Plant and Equipment:

On 19 March 2020 the Royal Institution of Chartered Surveyors (RICS) issued a Valuation Practice Alert - Coronavirus to its members, outlining some of the potential impacts from the effects of the Covid-19 virus on their work. The alert acknowledges that whilst the exact consequences of the current pandemic are unknown, there may be challenges inspecting property, and access to data such as comparables may be less freely available.

Valuers need also to clearly state and agree any valuation assumptions that are being made as a consequence of restricted access and/or valuation information. The alert notes that if the valuer considers that it is not possible to provide a valuation on a restricted basis, the instruction should be declined.

It also provides suggested wording to include where valuers wish to record a 'material valuation uncertainty', and we have already identified a number of valuation reports which include such a statement.

Whilst we note that the Authority is continuing to employ Flude Commercial to value its Property, Plant and Equipment for 2019/20, the Authority must continue to engage with Flude Commercial as the Coronavirus epidemic unfolds to assess the impact on the valuation or indices employed. If Flude Commercial refer to any 'material valuation uncertainty' in the valuations they provide to the Authority, we will need to consider what alternative procedures need to complete and if there is any impact on our audit report.

## Status of the 2019/20 audit

### EY Working Arrangements and Contingency Plans:

All EY staff are set up to work remotely as we are used to working from different locations and are working from home during the course of the pandemic. Therefore, subject to illness, the planned audit team remains unchanged.

We are working with the finance team to implement new ways of remote working. Our audit software already makes our whole audit file, audit methodology and prior year information available to members of the audit team at any time. In response to the requirement to work remotely, we have successfully used our EY Canvas Portal during the interim audit, which allows working paper requests, documents and evidence to be uploaded directly by your officers to our audit file. It also provides a method of monitoring progress of the audit and the requests made all in a central place.

We have employed the use of Microsoft Teams internally and have fortnightly catch-ups with key finance staff during the period until the audit starts and will increase these in frequency throughout the audit, and we have constant communication internally between the audit team. Ad hoc communication between finance staff and auditor will also continue as normal.

We are currently working through our resourcing for the summer in response to the revised audit deadlines, preferences of clients in respect of the timing of their audits and any impact this is likely to have on other audits. The aim of this work is to ensure we have appropriate resources available to conclude audits should delays or staff sickness be experienced, while minimizing the impact on subsequent audits.

### Audit fees

As members will be aware, Public Sector Audit Appointments (PSAA) is responsible for setting audit fees. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditor's assessment of risk and the work needed to meet their professional responsibilities". PSAA is aware that the setting of scale fees has not kept pace with the changing requirements of external audit, with increased focus on, for example, the valuations of land and buildings, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these are relevant in the context of the Authority's audit, we will discuss these with management as to the impact on the scale fee.

In the PSAA Scale of Fees document issued on 31 March 2020, PSAA has acknowledged the pressures, and has informed audit firms and audited bodies that they know the scale fee does not take account of the full costs of the audit. However, they have also said that they do not have the information to reflect that in an across the board increase. As a consequence we, along with other audit providers, are re-evaluating the fees for all audits, taking into account the ongoing impact of increased regulatory requirements, new accounting and auditing standards, and specifically, the potential impact of COVID-19 on delivering our audit this year.

We will discuss the outcome of this assessment initially with the Assistant Director – Resources/Treasurer and the Chief Fire Officer.

# Changes in areas of audit focus

## Area of audit focus: Going Concern Compliance with ISA 570

This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Authority will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Authority is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Scrutiny and Audit Panel.

The CIPFA Guidance Notes for Practitioners 2019/20 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.'

'If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.'

The revised standard requires:

- auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Authority obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements;
- a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

The revised standard extends requirements to report to regulators where we have concerns about going concern.

We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21.

## IFRS 16 – Leases:

CIPFA/LASAAC has agreed with FRAB to defer the implementation of IFRS 16 Leases until 1 April 2021 (from 1 April 2020) in response to the circumstances caused by COVID-19.



## 02 Timetable for 2019/20





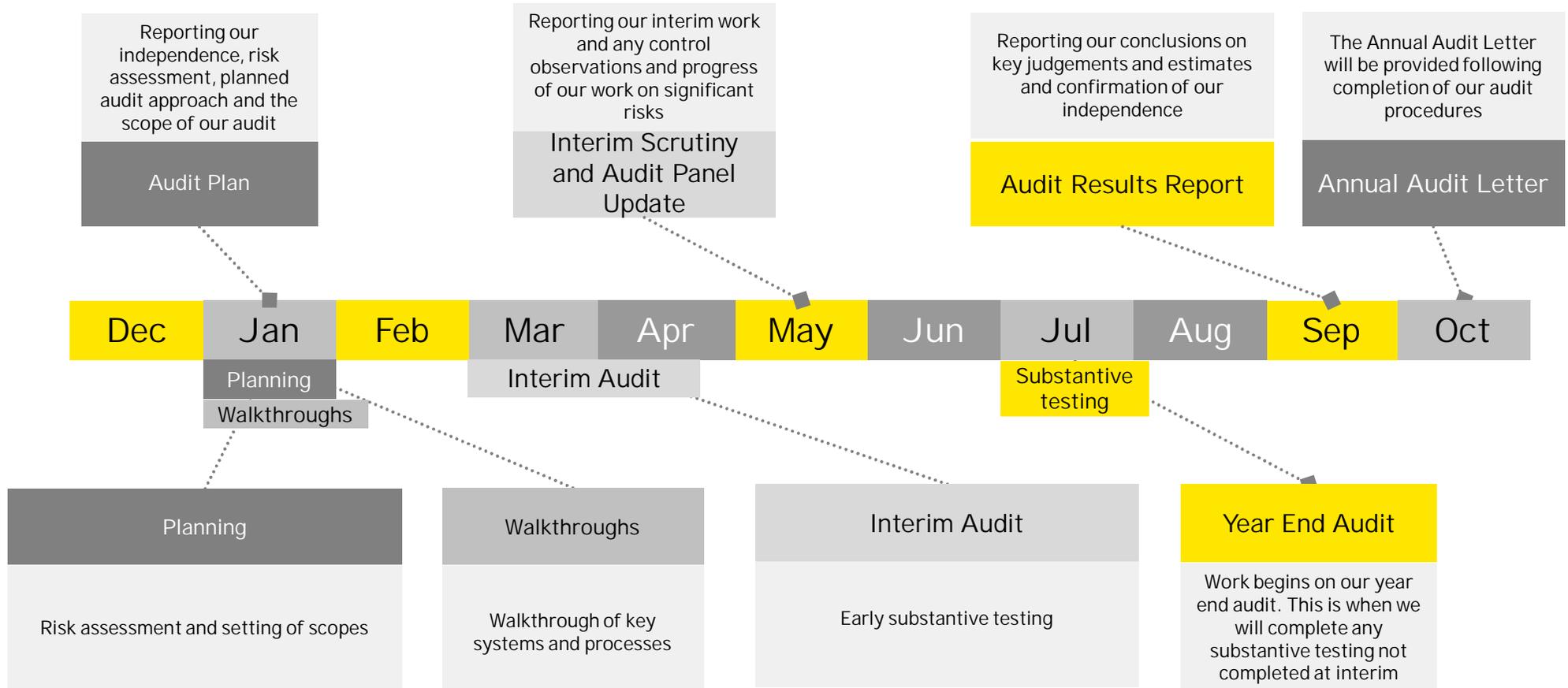
# Audit timetable for 2019/20

## Timetable of communication and deliverables

### Timeline

Below is a revised timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20.

From time to time matters may arise that require immediate communication with the Scrutiny and Audit Panel and we will discuss them with the Scrutiny and Audit Panel Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





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## Audit Committee Briefing



## Audit Committee Briefing

In addition to our formal reporting and deliverables, we provide practical business insights and updates on regulatory matters through our Sector Briefings.

We include our most recent fire sector briefing on today's agenda.

The following articles may be of interest:

Local Government Pension Scheme (LGPS): Exit Pensions Credit Payments

- Is your fire and rescue authority impacted by the change in regulation regarding LGPS payment of pensions exit credits?
- How is your fire and rescue authority's LGPS scheme achieving value for money through asset pooling?

The local public audit environment

- Are you clear on the timing of your 2019/20 audit and an indication of the fees being proposed by your auditor?

PSAA Report on the Future Procurement and Market Supply Options Review

- Have you considered what procurement approach and audit contract would suit your organisation?

State of Fire and Rescue – Annual Assessment of Fire and Rescue Services in England

- What grade did your fire service obtain in each of the sections i.e., effectiveness, efficiency and people? What improvements can your fire authority make going forward in order to increase their rating in the future?

Fire and rescue services incident statistics

- What are the statistics from your Fire Authority, are they following the same trends as the statistics released by Home Office?
- How does your fire authority align with the national picture of fire fatalities? What is your authority doing to improve the service provided?