East Sussex Fire Authority
Audit Planning Report

Year ended 31 March 2022

May 2022

EY
Building a better working world

27 April 2022

East Sussex Fire Authority
Service Head Quarters
Church Lane
Lewes
East Sussex
BN7 2DZ

Dear Members

2021/22 Outline Audit Planning Report

We are pleased to attach our outline Audit Plan which sets out how we intend to carry out our responsibilities as auditor.

Its purpose is to provide the Scrutiny & Audit Panel with an overview of our plans and fee for the 2021/22 audit. We have not yet completed our detailed planning procedures, and will provide a more detailed and comprehensive audit plan for the Panel at the next meeting or circulate the plan separately if Members prefer. This report sets our the areas which we consider will be a focus for our 2021/22 plan.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

This report is intended solely for the information and use of the Scrutiny & Audit Panel and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 12 May 2022 as well as understand whether there are other matters which you consider may influence our audit.

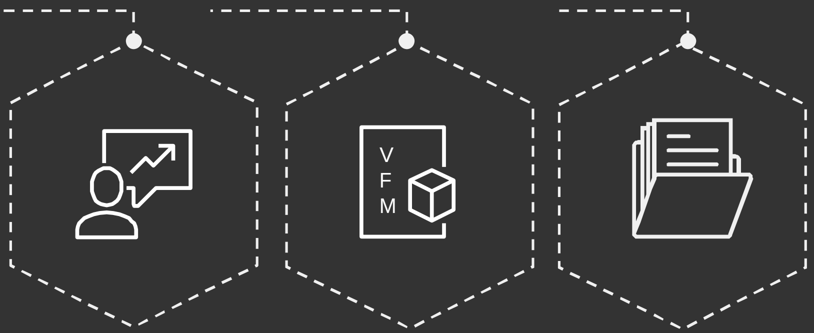
Yours faithfully

Helen Thompson

For and on behalf of Ernst & Young LLP

Enc

Contents



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.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/).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 July 2021)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) 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 & Audit Panel and management of the East Sussex Fire Authority in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Scrutiny & Audit Panel and management of the 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 & Audit Panel and management of the 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.

01 2021/22 Audit

2021/22 Audit

2021/22 financial statements audit

Planning for 2021/22

We have met the Treasurer and finance team regularly from December 2021 to discuss the conclusion of our 2020/21 audit and to organise our initial planning for the 2021/22 audit that will incorporate learning from the 2020/21 audit.

For 2021/22, the timetable as amended in the Department for Levelling Up, Housing and Communities (DLUHC) paper titled "Measures to improve local audit delays" published in December 2021 extends the publication date for audited local authority accounts from 31 July to 30 November.

Due to the ongoing impact of later deadlines and completion of audits from 2020/21, we have not yet completed our planning for the 2021/22 audit. We set out in this report our initial considerations of the risks for the audit – these are broadly similar to those identified in 2020/21. We will update these risks as our planning progresses and take into account the risks suggested by the NAO in the Auditor Guidance Note 06 – Local Government Audit Planning, which has not yet been released for 2021/22.

Wider public sector audit context

Recognising the increasing pressure on all auditors in the current climate the Department for Levelling Up, Housing and Communities (DLUHC) and CIPFA/LASAAC have both published papers relating to audit firms and timely completion of audits.

DLUHC

The DLUHC paper published in December 2021 recognises that challenges remain around the timeliness of local audit, which was one of the key issues highlighted in the Redmond review. As the National Audit Office (NAO) outlined in its 2020 report Timeliness of local auditor reporting on local government in England, a variety of complex factors are contributing to audit delays. These include:

- Audit firms are struggling with a net loss of qualified staff, with many qualified accountants choosing to leave the audit sector entirely.
- Increasing workload and regulatory pressure on auditors. The NAO found that the additional requirements of new International Financial Reporting Standards (IFRS), along with increased expectations from the Financial Reporting Council (FRC) following high-profile corporate failures such as Carillion and Patisserie Valerie, had combined to produce a significant increase in audit work.

In addition to the challenges faced by auditors, in the face of competing workload pressures, some local authorities have diverted staff resources away from completing working papers and preparing accounts, while the quality of processes within the finance functions of some local authorities has affected their preparedness for audit. These issues, have been exacerbated by the impact of the COVID-19 pandemic.

Considering the complexity of the drivers behind audit delays, it is clear that a whole system response is needed, with local bodies, audit firms, regulatory bodies and code-setters working collectively to implement solutions across the sector. The paper therefore sets out a series of additional measures committed to by government and other key stakeholders to support improved timeliness and the wider local audit market. These commitments are set out in Appendix A.

Overview of our 2021/22 audit strategy

2021/22 financial statements audit cont

CIPFA/LASAAC

The CIPFA/LASAAC paper explored proposals for change to the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022/23 code that might serve to improve current issues around timeliness of the publication of audited financial statements. Two key proposals of this report included:

1. To allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation; and,
2. To defer the implementation of IFRS 16 Leases (standard) for a further year and not make the planned changes to the 2022/23 code to implement that standard.

The consultation period of this paper has closed and whilst the proposal to defer the implementation of IFRS16 has been accepted, the proposal to pause valuations was rejected.

Materiality

Our application of materiality

When establishing our overall audit strategy, we determine the magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole. We set our planning materiality for the Authority at £1,053k, which is based on 2% of gross revenue expenditure reported in the 2020/21 accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority.

We will report to the Panel all audit differences in excess of £52k.

These figures will be updated upon receipt of the draft 2021/22 financial statements.

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Scrutiny & Audit Panel with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error (Management override)	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Valuation of Land and Buildings in Property, Plant and Equipment (PPE)	Inherent risk	No change in risk or focus	The fair value of Land and Buildings in PPE represent significant balances in the Authority's accounts and are subject to valuation changes and impairment reviews. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Pension Liability Valuation	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. Accounting for this scheme involves significant estimation and judgement and therefore, management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Going Concern Disclosure	Inherent risk	No change in risk or focus	There is a presumption that the Authority will continue as a going concern for the foreseeable future. However, the Authority is required to carry out a going concern assessment that is proportionate to the risks it faces. There is a need for the Authority to ensure it's going concern assessment is robust and appropriately comprehensive. The Authority is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular, highlights any uncertainties it has identified.

02 Value for Money Risks

Value for Money

Authority responsibilities for value for money

The Authority is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

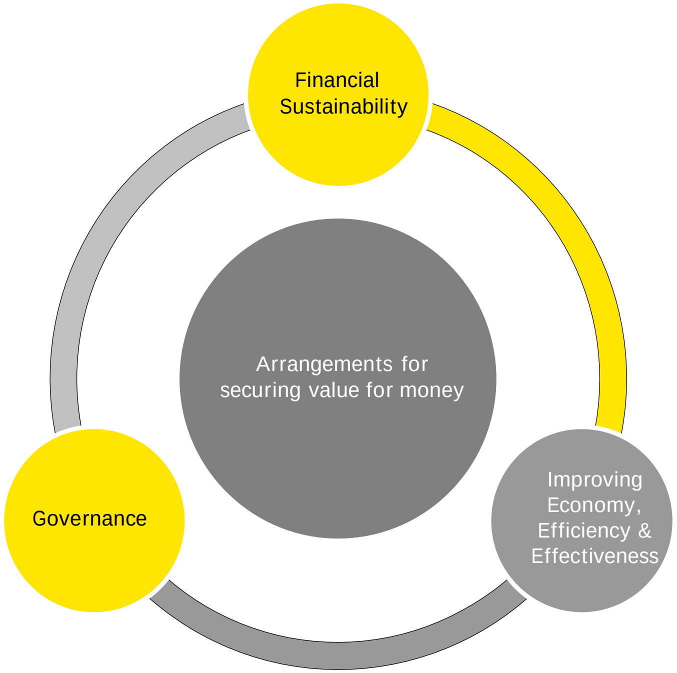
As part of the material published with the financial statements, the Authority is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Auditor responsibilities

Under the NAO Code of Audit Practice we are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Authority a commentary against specified reporting criteria (see below) on the arrangements the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability - How the Authority plans and manages its resources to ensure it can continue to deliver its services.
- Governance - How the Authority ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness - How the Authority uses information about its costs and performance to improve the way it manages and delivers its services.



Value for Money

Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Authority's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the Authority's arrangements, we are required to consider:

- The Authority's governance statement;
- Evidence that the Authority's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies; and
- Any other evidence source that we regards as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Authority to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Authority's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Authority;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Authority's reported performance;
- Whether the issue has been identified by the Authority's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Authority has had to respond to the issue.

Value for Money

Responding to identified risks of significant weakness

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Scrutiny & Audit Panel.

Reporting on VFM

Where we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

In addition, the Code requires us to include the commentary on arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Authority's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Where we have sufficient evidence to determine that there is a significant weakness on VFM related arrangements we are able to report that weakness, and an associated recommendation for improvement, at that time and not wait until we issue our Audit Results Report on the audit of the statement of accounts.

Status of our 2021/22 VFM planning

We have yet to complete our detailed VFM planning. We will update the next Scrutiny & Audit Panel meeting on the outcome of our VFM planning and our planned response to any additional identified risks of significant weaknesses in arrangements.

03 Fees

Fees

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2021/22	Proposed fee 2020/21	Scale fee 2020/21	Final Proposed Fee 2019/20
	£	£	£	£
PSAA Scale Fee	23,690	23,690	23,690	23,690
2019/20 fee variation determined by PSAA (Note 1)	-	-	-	8,700
2020/21 PSAA expected additional minimal core fees (Note 2): • VFM • ISA 540 accounting estimates	-	TBC	5,000 to 9,000 1,900	-
2020/21 fee variation (Note 3)	-	TBC	-	-
Total fees	TBC	TBC	30,590 to 34,590	32,390

We have updated the table opposite to estimate the fee based on the work completed at the point of issuing this report. These figures could change, and need to be agreed with officers and the PSAA.

Note 1 - In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we assessed that the recurrent cost of additional requirements to carry out our audit should increase by £27,553. In addition, we identified an in-year risk based fee variation of £4,342 for 2019/20. PSAA has determined the total fee variation for 2019/20 as £8,700. We expect similar costs in nature in 2020/21 and subsequent years. However, PSAA has stated that this will need to be determined each year.

Note 2 - In August 2021, PSAA published 'Additional information for 2020/21 audit fees'. PSAA commissioned external independent technical research for setting standardised fee variations to assess the expected impact on audit work programmes of a range of new and updated audit requirements. The figures included here are the minimum additional fee ranges set out in this document.

Note 3 - We are currently assessing the additional fee (over and above VFM and ISA540) for our 2020/21 audit. We will discuss this with the Treasurer and update the Scrutiny & Audit Panel at the meeting in May.

04 Appendices

Appendix A

Department for Levelling Up, Housing and Communities - Measures to improve local audit delays

The following commitments are made within the Department for Levelling Up, Housing and Communities paper titled- Measures to improve local audit delays:

1. FRC to publish updated Key Audit Partner (KAP) guidance by spring 2022, including new routes for an experienced Registered Individual to become a KAP;
2. Work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor, and a new technical advisory service that could provide support to firms, and in particular new entrants;
3. DLUHC to provide further funding of £45 million over the course of next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements;
4. CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, consider making the guidance, committees and the independent member statutory;
5. DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs;
6. NAO rolling over of amendments to 20/21 AGN 03 and 07 to allow for altering the timing of elements on the VfM arrangements work and enable more focus on fully delivering opinions on the financial statements;
7. CIPFA/LASAAC is undertaking a project to improve the presentation of local authority accounts to inform the development of the 22/23 Accounting Code and comply with IFRS and statutory accounting principles HMT to undertake thematic review of financial reporting valuations for non-investment properties to inform development of the Accounting Code from 22/23 onwards;
8. The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 21/22;
9. Delaying implementation of standardised statements and associated audit requirements;
10. PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24;
11. Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 21/22 accounts, then 30 September for 6 years, beginning with the 22/23 accounts;
12. NAO to prepare for a re-laying of the Code of Audit Practice 2020 in parliament, so that it will apply for the whole of the next appointing period; and,
13. Developing an industry-led workforce strategy, working with the system leader and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications.

EY | Assurance | Tax | Transactions | Advisory