

A photograph showing a group of people sitting around a white table, looking at and pointing to various documents. One person is wearing a yellow shirt and a watch. Another person is wearing a white shirt. A smartphone is visible on the table. The background is bright and out of focus.

East Sussex Fire Authority Audit Planning Report

Year ended 31 March 2023

April 2023



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

06 April 2023

Dear Members

2022/23 Outline Audit Planning Report

We are pleased to attach our outline Audit Planning Report for the forthcoming meeting of the Scrutiny & Audit Panel. The purpose of this report is to provide the Scrutiny & Audit Panel with an overview of our audit plans and fee for the 2022/23 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 out the areas which we consider will be a focus for our 2022/23 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 auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

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 27 April 2023 as well as understand whether there are other matters which you consider may influence our audit.

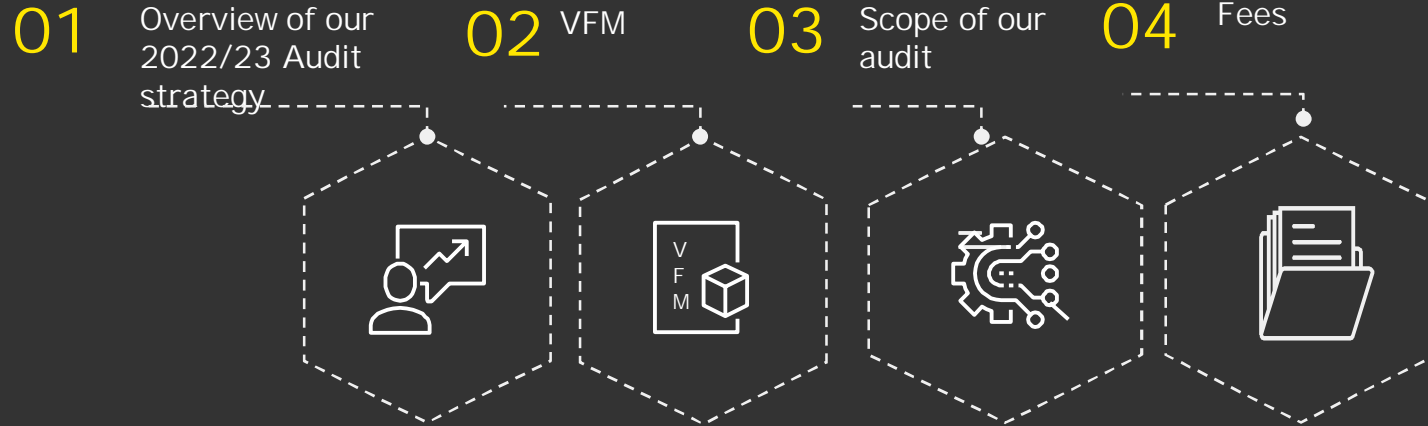
Yours faithfully

Helen Thompson

For and on behalf of Ernst & Young LLP

Enc

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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/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.psa.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

Overview of our 2022/23 audit strategy



2022/23 financial statements audit

Planning for 2022/23

Due to the ongoing impact of later deadlines and completion of audits from 2021/22, we have not yet completed our planning for the 2022/23 audit. We set out in this report our initial considerations of the risks for the audit – these are broadly similar to those identified in 2021/22. 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 2022/23.

In April 2023 we are planning on performing some of the walkthroughs as part of our planning work. We will communicate our audit timeline to the Treasurer and update the Scrutiny & Audit Panel at the next meeting.

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 £1,085,000, which is based on 2% of gross revenue expenditure reported in the 2021/22 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 £54,000.

These figures will be updated upon receipt of the draft 2022/23 financial statements.

Overview of our 2022/23 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	<p>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. The triennial valuation exercise has been completed as at 31 March 2022, and we will review the key judgements and estimates as part of our audit.</p> <p>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.</p>
Going Concern Disclosure	Area of audit focus	No change in risk or focus	<p>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.</p> <p>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.</p>

Overview of our 2022/23 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of East Sussex Fire Authority give a true and fair view of the financial position as at 31 March 2023 and of the income and expenditure for the year then ended; and
- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 02.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Authority's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Authority.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are 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 ISA 540 (revised) and the value for money conclusion. In particular, for our 2022/23 audit we will be implementing the revised requirements of ISA 315 relating to our assessment of the risk of material misstatement for the first time. Therefore to the extent any of these or any other risks are relevant in the context of East Sussex Fire Authority's audit, we will discuss these with management as to the impact on the scale fee.

Effects of climate-related matters on financial statements and value for money arrangements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Overview of our 2022/23 audit strategy

Value for money conclusion

We include details in Section 02 but in summary:

- We are required to consider whether the Authority has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Authority's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will provide a commentary on the Authority's arrangements against three reporting criteria:
 - 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; and
 - 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.
- The commentary on VFM arrangements will be included in the Auditor's Annual Report.

Audit team changes

Key changes to our team:



Manager – Rumana Rafiq Ullah

Rumana joined EY UK in January 2019 as an Audit Senior. She has 4 years' experience of working with local government clients across the South and South East of England.



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.

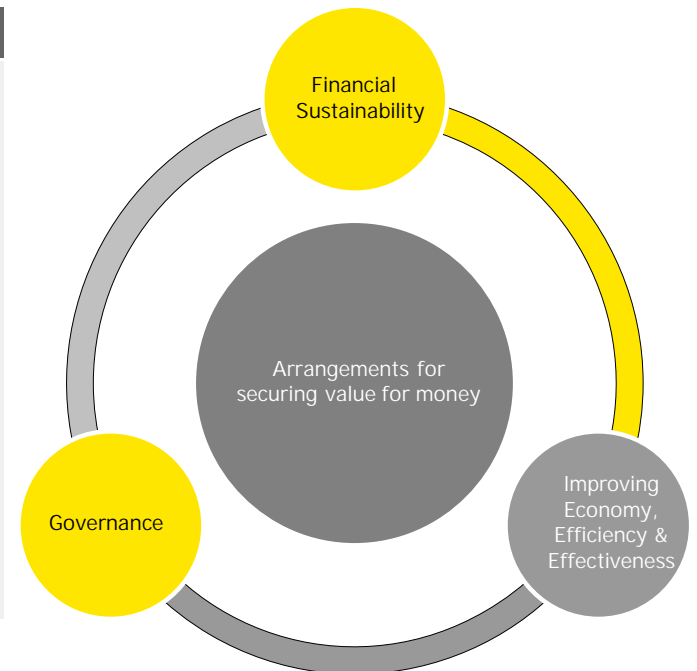
As part of the material published with the financial statements, the Authority is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Authority tailors the content to reflect 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.





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 regard 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 2022/23 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

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our opinion on the financial statements:

- whether the financial statements give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and
- whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements; and
- where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

Other procedures required by the Code:

- Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

As outlined in Section 03, 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 and report a commentary on those arrangements.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2022/23 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

For 2022/23, we will be building on our use of data analytics, which in previous years has focussed on reviewing general ledger transactions to assist with our work on payroll and journals. We will be using our data analysis tools more widely, to enhance our understanding of the Authority's financial processes and significant accounting entries, as a continuous process throughout the audit. This will augment our audit planning procedures, and allow us to better identify any unusual or unexpected postings or trends, to add to our overall risk assessment. This "data first" approach will supplement, rather than replace, our normal audit process, adding a further element to our overall understanding of the Authority.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Scrutiny & Audit Panel.

Internal audit:

We will regularly meet with your Chief Internal Auditor, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit procedures where they raise issues that could have an impact on the financial statements.

ISA (UK) 315



ISA (UK) 315 (Revised July 2020) *Identifying and Assessing the Risks of Material Misstatement*

Summary of key measures

- The revised auditing standard is effective for audits of financial statements for periods beginning on or after 15 December 2021, and adopts ISA 315 (Revised 2019) as issued by the IAASB;
- The revised risk assessment standard sees enhancements and clarifications to: (i) Encourage a more robust risk assessment, thereby promoting more focused responses to the identified risks; (ii) Clarify current requirements to promote consistency in the application of procedures for risk identification; and (iii) Modernize the standard to keep up with the evolving environment in which entities operate, in particular in relation to the entity's use of information technology;
- The fundamentals of risk assessment have not changed, however, the changes will see additional audit procedures and considerations being made in the following areas to respond to the requirements of the revised standard:
 - How we identify and assess risks based on our understanding of the entity and other risk assessment procedures;
 - How we understand the components of the system of internal control, including new evaluations which apply to each component;
 - The type of controls and process for understanding controls that are relevant to our audit relating to the preparation and posting of journal entries;
 - New requirement Understanding the effect of the Authority's use of IT, including relevant IT general controls, and the identification of IT-related risks; and
 - Evaluating, as an audit team, whether sufficient evidence has been obtained to support the identification and assessment of risks of material misstatement.

Impact on East Sussex Fire Authority

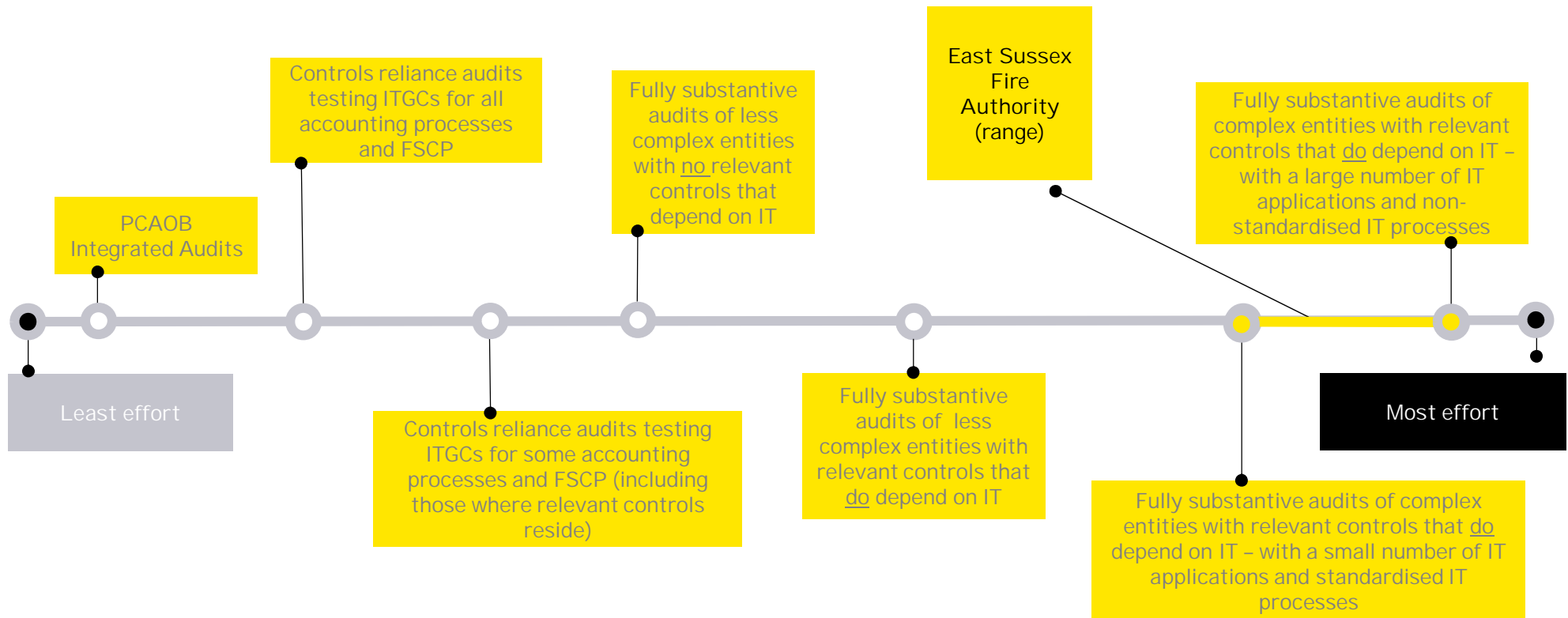
- The revised standard is for auditors and does not put any additional responsibilities or requirements on management or the Scrutiny & Audit Panel. However, management and/or the Scrutiny & Audit Panel may experience different conversations, requests or simply have more focused discussions with members of the audit team, including about risk, internal controls, audit quality and our audit strategy;
- For East Sussex Fire Authority the revised standard is effective for this audit of the financial statements for the period ended 31 March 2023;
- We will be required to perform new and additional procedures to understand [the Authority's use of IT, the IT processes related to those IT applications relevant to the audit used in the different accounting processes and, where relevant, the IT general controls (ITGCs) that address IT risks in the IT processes and evaluation of their design effectiveness and whether they have been implemented. The revised standard does not require an evaluation of the operating effectiveness of ITGCs; it continues to be a strategy decision for the auditor as to whether they intend to rely on IT processes.
- More control observations may be identified and communicated, and the additional evaluations of the components of the system of internal control may help identify deficiencies that are considered to be *significant deficiencies*;
- The new requirement relating to understanding the effect of the use of IT by an audited entity has the greatest potential for additional audit effort, involvement of team members with specialised knowledge of auditing IT, and an upward impact on audit fees;
- We have discussed on the next slides the specific impact of this new requirement on the audit of the Authority;
- The other impacts of the revised standard on our audit strategy are reflected in the relevant sections of this report.

External resources

- [FRC Feedback statement and impact assessment](#)
- [IAASB Introduction to ISA 315 \(Revised 2019\) Fact Sheet](#)

ISA (UK) 315

The graphic below indicates where we anticipate, based on our current understanding, that the audit of East Sussex Fire Authority falls on the spectrum of effort as it applies to the new requirements of the revised standard relating to understanding the effect of the use of IT. The level of effort is displayed relative to the circumstances applicable to East Sussex Fire Authority and why that level of effort may differ to that required on the audits of entities with different circumstances.





04

Fees



Appendix A

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 2022/23	Scale fee 2021/22	Final Fee 2021/22
	£	£	
PSAA scale fee	30,815	23,690	23,690
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk	Nil	Nil	Nil
Revised proposed scale fee	30,815	23,690	23,690
Scale fee variation:			
o Additional work for Covid-19 (Note 1)	TBC	Nil	694
o Additional work for increased FRC challenge (Note 1)	TBC	Nil	1,750
o Additional work for pension valuation (Note 1)	TBC	Nil	3,791
o Additional work for PPE valuation (Note 1)	TBC	Nil	2,750
o Additional work of an internal expert (Note 1)	TBC	Nil	583
o Additional work for ISA540 (Notes 1 and 2)	1,900	Nil	1,943
o Additional work for VFM commentary (Notes 1 and 2)	5,000 to 9,000	Nil	5,580
Total in-year scale fee variation	6,900 to 10,900	Nil	17,091
Total fees	37,715 to 41,715	23,690	40,781

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Authority; and
- The Authority has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Authority in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Notes - Please see next page

All fees exclude VAT



Appendix A

Notes to fee table

Note 1 - PSAA determined the total fee variation for 2021/22 to be £17,091. Included in this fee variation are amounts for additional work performed in 2021/22 relating to the pension valuation performed by our internal specialists and other inherent/significant risks. These were discussed with management and approved by PSAA as part of the scale fee variation process.

Note 2 - In November 2022, PSAA published the '2022/23 audit fee scale'. 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. Any additional fees (over and above VFM and ISA540) will be discussed with the Treasurer and submitted to PSAA for approval following the completion of the audit.

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