



## BEDFORDSHIRE FIRE AND RESCUE AUTHORITY

Members of Audit and Standards Committee.

Bedford Borough Councillors: M Headley

Central Bedfordshire Councillors: F Chapman, J Chatterley, P Downing and P Duckett

Luton Borough Councillors: Y Waheed

A meeting of **Audit and Standards Committee** will be held at **Conference Room, Fire and Rescue Service Headquarters, Kempston, Bedford MK42 7NR** on **Thursday, 14 March 2019** starting at **10.00 am**.

John Atkinson  
Secretary/Monitoring Officer

### A G E N D A

Item	Subject	Lead	Purpose of Discussion
1.	Apologies	Chair	
2.	Declarations of Disclosable Pecuniary and Other Interests	Chair	Members are requested to disclose the existence and nature of any disclosable pecuniary interest and any other interests as required by the Fire Authority's Code of Conduct (see note below).
3.	Communications	Chair	(Pages 5 - 16)

<b>Item</b>	<b>Subject</b>	<b>Lead</b>	<b>Purpose of Discussion</b>
4.	Minutes	Chair	To confirm minutes of the meeting held on 6 December 2018 (Pages 17 - 26)
5.	Public Participation		To receive any questions put to the Authority under the Public Participation Scheme
6.	External Audit Plan 2018/19 (Ernst & Young)	CFO/Ernst & Young	To consider a report (Pages 27 - 64)
7.	Ernst & Young Quality Assurance Processes	CFO/Ernst & Young	To consider a report (Pages 65 - 98)
8.	Internal Audit Progress Report (RSM)	CFO/RSM	To consider a report (Pages 99 - 106)
9.	Internal Audit Strategy 2019/20 to 2021/22 (RSM)	CFO/RSM	To consider a report (Pages 107 - 126)
10.	Audit and Governance Action Plan Monitoring - Exception Report and Summary Analysis	CFO	To consider a report (Pages 127 - 134)
11.	Update to the Authority's Financial Regs (Biennial review)	Chief Accountant	To consider a report (Pages 135 - 154)
12.	Review of Work Programme 2018/19	CFO	To consider a report (Pages 155 - 160)

**Local Government Act 1972: Schedule 12A (as amended) - Exclusions on the Public**

To consider whether to pass a resolution under Section 100(A) of the Local Government Act 1972 to exclude the public from the remainder of the meeting on the grounds that consideration of the following items of business is likely to involve the disclosure of exempt information as defined in Paragraphs 3 of Part 1 of the Schedule 12A to the Act as amended.

<b>Item</b>	<b>Subject</b>	<b>Lead</b>	<b>Purpose of Discussion</b>
13.	Review of BFRS Corporate Risk Register	OAM	To consider a report (Pages 161 - 180)

Item	Subject	Lead	Purpose of Discussion
14.	FRA Requested Report	Secretary/ Monitoring Officer	Report to follow
	Next Meeting	10.00 am on 10 July 2019 at Conference Room, Fire and Rescue Service Headquarters, Kempston, Bedford MK42 7NR	

### DECLARATIONS OF INTEREST

From 1 July 2012 new regulations were introduced on Disclosable Pecuniary Interests (DPIs). The interests are set out in the Schedule to the Code of Conduct adopted by the Fire Authority on 28 June 2012. Members are statutorily required to notify the Monitoring Officer (MO) of any such interest which they, or a spouse or civil partner or a person they live with as such, have where they know of the interest.

A Member must make a verbal declaration of the existence and nature of any Disclosable Pecuniary Interest and any other interest as defined in paragraph 7 of the Fire Authority's Code of Conduct at any meeting of the Fire Authority, a Committee (or Sub-Committee) at which the Member is present and, in the case of a DPI, withdraw from participating in the meeting where an item of business which affects or relates to the subject matter of that interest is under consideration, at or before the consideration of the item of business or as soon as the interest becomes apparent.

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# Emergency services sector update



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# Introduction

Welcome to RSM's latest Emergency Services sector briefing which provides a useful source of insight into recent developments and publications affecting the sector.

We look at the National Audit Office's (NAO) report on the financial sustainability of police forces, drawing attention to the Home Office's approach to overseeing police forces financial sustainability, ways in which the Home Office informs itself when making decisions related to funding allocations and the recommendations that have been set out by the NAO. In addition, we look at statistics on police complaints, the Home Office's investment on the Police Transformation Fund alongside the types of projects currently underway and the announcement of a 2 per cent pay rise for police officers following the removal of the public sector pay cap.

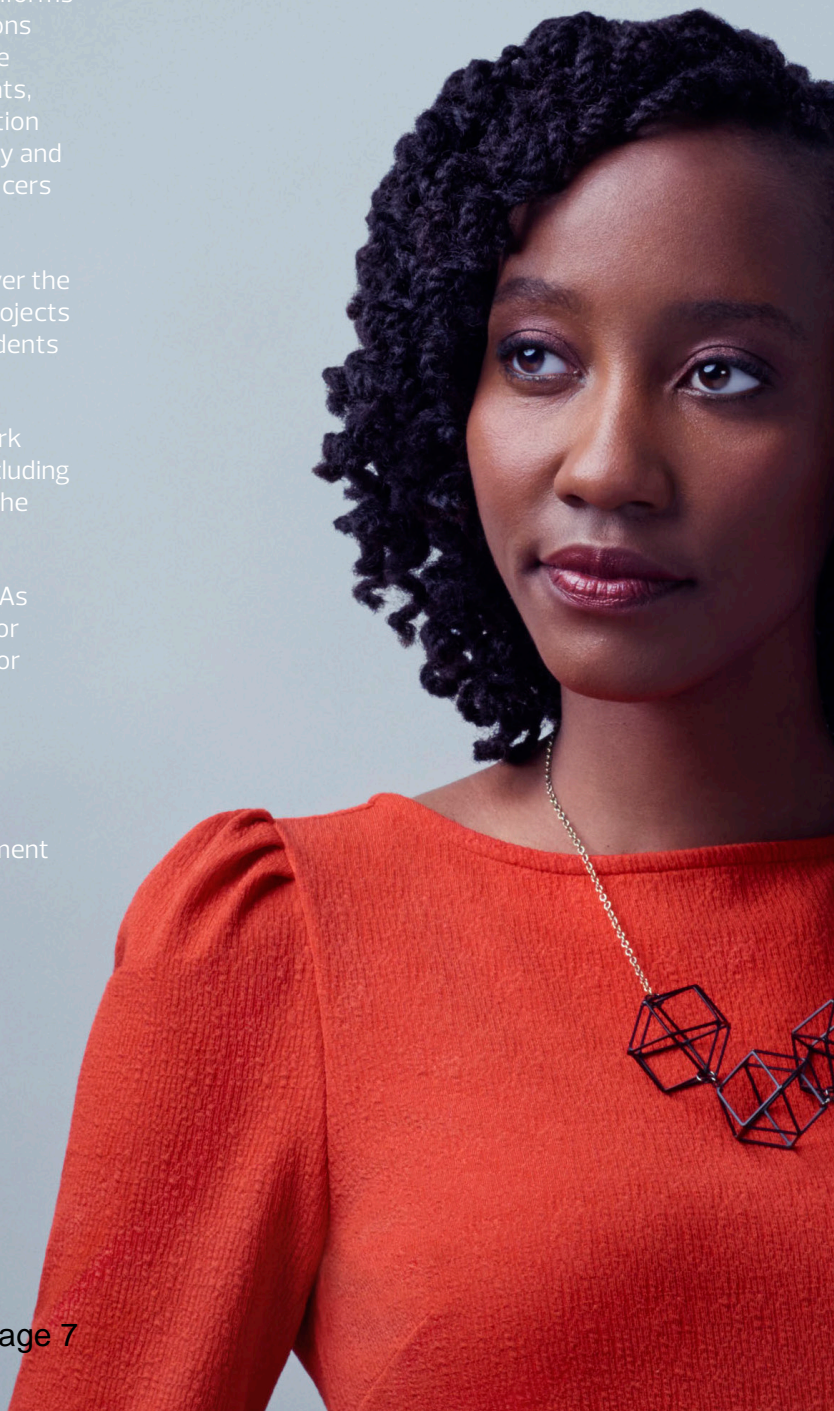
In looking specifically at fire and rescue services, we cover the Home Office's review of the Fire Transformation Fund projects since its introduction in April 2015, and statistics on incidents attended by fire and rescue services.

We also delve into the new Emergency Services Network expected to be implemented over the following year, including how the new approach will transform the way in which the emergency services sector operates.

We hope you find this update a useful source of insight. As ever, if you have any queries, or have any suggestions for topics for future editions, please contact either myself, or your usual RSM contact and we will be delighted to help.

**Daniel Harris**

National Head of Emergency Services and Local Government



# Police and fire

## New strategic direction for the Emergency Services Network (ESN)

Following the Home Office's in-depth review, a new strategic direction has been announced for the 'Emergency Services Network (ESN)'. The new mobile-based communications network will save £200m in public money annually once the existing radio-based network 'Airwave' has been fully replaced. The change will allow police, fire and rescue services, ambulance services and other users to use data services over the network from early in 2019, followed by voice capabilities soon after.

The emergency services will be able to test and choose which ESN products they want as and when they become available instead of having to wait for the network to be implemented fully. The 4G network will reshape emergency services' mobile working, particularly in 'remote areas and at times of network congestion, with sim cards giving them priority over commercial users.' ESN also has the potential to allow emergency services to communicate on the London Underground.

The National Fire Chiefs Council (NFCC) welcomed the decision to roll out ESN incrementally. Roy Wilsher, Chair of the NFCC, stated 'the ESN will encourage greater information sharing and collaboration between the emergency services.'

The NAO report on the financial sustainability of police forces stated that delays in the ESN programme, which is now at least 15 months behind schedule (as at June 2018), has placed additional costs on forces. The Home Office plans to fund £1.3bn on work to replace the existing system, however, until the new ESN system is fully in place, the Home Office is having to spend £330m annually from the total police budget to run the old Airwave system. This is resulting in many forces having to make significant investments to extend the life of their Airwave equipment while they wait for the ESN system to become available. Emergency services will be hoping that when details of the strategy are provided to Parliament it will bring further clarity on the new rollout.





# Police

## Financial sustainability of police forces in England and Wales 2018

The National Audit Office (NAO) has published a report on the 'financial sustainability of police forces in England and Wales 2018', a follow up to the report published in June 2015. The present report examines the Home Office's progress in 'managing a clear assurance and oversight system.'

Key points from the report include:

- the NAO have stated that the Home Office should be in a position where it can get assurance that forces are not at risk of becoming 'financially unsustainable';
- the Home Office estimate that the overall funding for police in 2018/19 will be £12.3bn;
- the NAO identified that while the impact of funding on police forces varies, the forces that rely mostly on governments funds had experienced the largest cuts;
- the NAO argues that the Home Office's 'police funding formula' does not take into account the full range of demands on police time, levels of financial reserves or the proportion of funding that police forces receive from central government relative to local funding;
- between March 2011 and March 2015, reserves were found to have increased by 49 per cent; however, the NAO stated in their 2015 report that reserves are not a sign of 'financial health.' Forces have since reduced their reserves by 20 per cent by March 2017; and
- the NAO states that the Home Office does not know what levels of reserves forces should hold in order to be financially sustainable, or if the decline in reserves reflects budget pressures.

The report concludes that the way in which the Home Office distributes funding is 'ineffective' and cannot be certain that funding is directed to the right places. The NAO also stated that it cannot conclude that the Home Office's oversight of the police system is ensuring 'value for money.' The NAO further highlights that the Home Office is not clear in its 'accountability system statement' on how it gets assurance that the policing system is working. There is also not enough clarity on what information is used to monitor the financial health of police forces and ways in which it will address forces' financial or service failure. The Home Office expect commissioners to be responsible for ensuring that the local communities policing needs are met effectively and efficiently. Forces are required to undergo independent inspection by Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS), however the Home Office understands that there are limitations to these inspections when identifying risks to financial sustainability of police forces. The NAO concludes that the Home Office's 'light touch' approach to the oversight of police forces means that it is unaware whether the police system is financially sustainable or not.

The NAO sets out a number of recommendations including that the Home Office agrees who is accountable for what across all levels of the policing system. The Home Office should make clear its relationship with HMICFRS in order to gain assurance that the police system is financially sustainable. The Home Office should also make this clear in their 'accounting officer system statement.' The NAO recommends that the Home Office develops a clearer understanding of whether police forces funding is enough to support them to deliver a service that is efficient and effective. They should also review the formula for police funding and take on an approach that will consider local circumstances more fairly.

### Questions for committee's consideration

Have you received assurance that your own force is progressing the relevant points coming out of the report?

## Police complaints: Statistics for England and Wales 2017/18

The Independent Office for Police Conduct (IOPC) has published statistics on police complaints for England and Wales in 2017/18. Police forces deal with most of the cases recorded while the IOPC only deals with the most serious and sensitive cases.

Key statistics include:

- 31,671 complaint cases were recorded by forces, a 7 per cent decline from 2016/17;
- most forces recorded over 80 per cent of their complaints within the expected 10 working days. 24 forces maintained or improved the number of complaints they recorded on time;
- 61,238 allegations were recorded, a decline of 4 per cent from 2016/17;
- 'other neglect or failure of duty' was the most common allegation accounting for 39 per cent;
- forces finalised 60,944 of the 61,238 allegations;
- 44 per cent of allegations finalised were subject to formal investigation, and took an average of 173 working days, an increase on the previous year where it took 166 days;

- 42 per cent of allegations finalised were locally resolved and took an average of 72 working days to resolve, an increase on the previous year where it took 67 days. 28 forces took longer to resolve allegations compared to the previous year;
- 6 per cent of allegations were withdrawn;
- overall, 31,524 complaints were finalised, a 4 per cent decline from 2016/17;
- on a whole complaint cases took longer to finalise. In 2017/18, the average number of days to finalise a case was 116 days with the average time ranging between 28 and 230 days across forces; and
- the total number of appeals declined by 8 per cent from 2016/17.

It is noted in the Parliaments briefing paper on the police complaints system that the current system is 'complex, and so is the legislation governing it.' It is anticipated that the Home Office reforms, which will come into effect in 2019, will simplify the complaints process. Changes include allowing police and crime commissioners to take on a greater role in the system and introducing a system of 'super-complaints'

### Questions for committee's consideration

Does the committee have assurance that internal processes are being updated in line with the changes required?

## £100m to police transformation projects

The Home Office has announced it is investing over £100m of the Police Transformation Fund in projects designed to prepare police forces to adapt to future challenges. Up to £70m has been approved by the Home Secretary for investment in 2018/19 in four national major police-led programmes covering forces in England and Wales, and to manage the portfolio of projects to ensure maximum benefits are shared among forces. The programmes will transform how police use technology, allow the public to easily engage with police online, and boost capacity to deal with major threats. The Home Office has also announced awards totalling £42.7m to 15 successful bids across 2018/19 and 2019/20.

The four national major police-led programmes currently underway include:

- 'the national enabling programme' – this will provide a combined IT system across policing and deliver more joined-up working within and between forces;
- 'specialist capabilities programme' – this will improve resource sharing between forces in key crime areas;
- 'the digital policing portfolio' – this aims to improve the use of technology by police; and
- 'transforming forensics' – this will improve the way in which biometric services and digital forensics are used.

### Questions for committee's consideration

Is your audit committee receiving assurance that the benefits realisation identified when submitting bids are actually achieved from transformation projects?

Are you assured that an effective framework is in place which identifies risk and opportunities from transformation projects?

## Police to receive 2 per cent pay increase in 2018 to 2019

Following the government's removal of the public sector pay cap, police officers will receive a pay rise of 2 per cent which will mean average pay for a Constable will now be over £38,600 per year. The increase affects all police officer ranks and dog handlers' allowance. Sajid Javid, Home Secretary, stated 'this award represents the highest consolidated pay award since 2010.' The government has delivered an increase of £460m in overall funding to policing in 2018 to 2019, including a rise of funding for local policing through 'council tax precept.' This funding will allow forces to meet the costs of the pay award.

### Questions for committee's consideration

Do Medium Term Financial Plans reflect the pay award and is the committee assured that increased costs will be managed effectively?



# Fire

## Review of the fire transformation fund projects

The Home Office has published a report on the progress of the Fire Transformation Fund (FTF) projects since being introduced in April 2015. The Department for Communities and Local Government (now the Ministry of Housing, Communities and Local Government) had awarded a grant of £75m to fund 37 projects in 2015. The Fire Transformation Fund aims to support fire and rescue authorities (FRAs) to carry out projects to improve efficiency of public services. Projects fall under four categories: building, collaboration, prevention and workforce, with categories overlapping in some instances.

Key findings include:

- as of April 2017, 10 projects were fully completed however, only three were completed within 12 months. This demonstrated that the timescales were not sufficient for many of the projects;
- of the 10 projects completed, many had already started prior to receiving the fire transformation fund, indicating that that the early start contributed to the projects finishing within two years;
- 36 projects had spent around 55 per cent (£40.8m) of the total FTF at the end of the 24-month stage;
- The 10 projects that had been completed within the specified 12 months had spent £10.85m; and
- projects that had been delayed were a result of issues such as 'planning permission', 'tendering or procurement of contracts' and 'IT system or technology issues.'

### Questions for committee's consideration

How does your fire service compare?

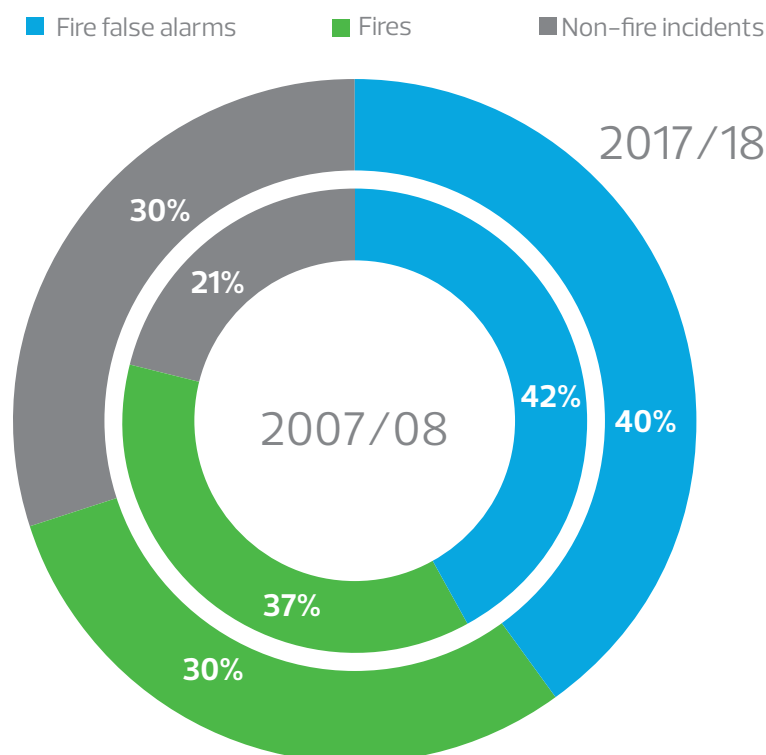
Are you receiving assurance on the progress of projects?

## Fire and rescue incident statistics

The Home Office has published statistics on fire and rescue incidents in England in the year to March 2018. Key statistics include:

- fire and rescue services (FRSs) attended 564,827 incidents, an increase from 560,453 in the previous year; however, this is a 29 per cent decline compared with a decade ago (791,746 in 2007/08);
- of all incidents attended by FRSs in 2017/18, fire false alarms accounted for 40 per cent (42 per cent in 2007/08), fires accounted for 30 per cent (37 per cent in 2007/08) and non-fire incidents accounted for 30 per cent (21 per cent in 2007/08);
- FRSs attended 167,150 fires, an increase of 3 per cent compared to the previous year. This represents a decrease of 43 per cent to 2007/08 where FRSs attended 293,920 fires. Of the 167,150 fires attended, 74,118 were primary fires, 89,017 were secondary fires and 4,015 were chimney fires;
- FRSs attended 225,625 fire false alarms, a 1 per cent increase compared with the previous year (223,896) but a 32 per cent decrease compared with ten years ago (331,478);
- FRSs attended 172,052 non-fire incidents, a 27 per cent increase compared to 2012/13 where FRSs attended 135,054 non-fire incidents. Generally, there has been a decline in the number of non-fire incidents, however, in the last couple of years this has been rising due to an increase in the number of medical incidents attended by FRSs. In the 2017/18, 32,820 of the 172,052 non-fire incidents attended by FRSs were medical incident related; and
- there was in total 334 fire related fatalities, a rise of 27 per cent compared to last year (263).

Incidents attended by FRSs



# Sources of further information

## Home Office

### 'New strategic direction for the Emergency Services Network (ESN)'

<https://www.gov.uk/government/news/new-strategic-direction-for-the-emergency-services-network-esn>

## National Audit Office

### 'Financial sustainability of police forces in England and Wales 2018'

[https://www.nao.org.uk/report/financial-sustainability-of-police-forces-in-england-and-wales-2018/?utm\\_content=&utm\\_medium=email&utm\\_name=&utm\\_source=govdelivery&utm\\_term](https://www.nao.org.uk/report/financial-sustainability-of-police-forces-in-england-and-wales-2018/?utm_content=&utm_medium=email&utm_name=&utm_source=govdelivery&utm_term)

## IOPC

### 'Police complaints: Statistics for England and Wales 2017/18'

[https://www.policeconduct.gov.uk/sites/default/files/Documents/statistics/complaints\\_statistics\\_2017\\_18.pdf](https://www.policeconduct.gov.uk/sites/default/files/Documents/statistics/complaints_statistics_2017_18.pdf)

## Parliament

### 'Police complaints system in the UK'

<https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN02056>

## Home Office

### '£100m to police transformation projects'

<https://www.gov.uk/government/news/home-office-awards-over-100-million-to-police-transformation-projects>

## Home Office

### 'Police to receive 2 per cent pay increase in 2018 to 2019'

<https://www.gov.uk/government/news/police-to-receive-2-pay-increase-in-2018-19>

## Home Office

### 'Review of the Fire Transformation Fund'

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/723361/fire-transformation-fund-horr-98.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/723361/fire-transformation-fund-horr-98.pdf)

## Home Office

### 'Fire and rescue incident statistics'

<https://www.gov.uk/government/statistics/fire-and-rescue-incident-statistics-england-year-ending-march-2018>



# For more information please contact

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**MINUTES OF THE AUDIT AND STANDARDS COMMITTEE MEETING HELD ON 6 DECEMBER 2018 AT 10.00am**

Present: Councillors Headley (Chair), Chatterley, Downing and Waheed  
Mr J Atkinson, ACO Z Evans, SOC A Peckham and Mr G Chambers  
Mr N Harris, Ernst & Young  
Ms L Davies, RSM

18-19/AS/028 Apologies

28.1 An apology for absence was received from Councillor Chapman.

18-19/AS/029 Declarations of Disclosable Pecuniary and Other Interests

29.1 There were no declarations of interest.

18-19/AS/030 Communications

30.1 There were no communications.

18-19/AS/031 Minutes**RESOLVED:**

That the Minutes of the meeting held on 25 September 2018 be confirmed and signed as a true record.

18-19/AS/032 Public Participation

32.1 There were no members of the public present at the meeting.

18-19/AS/033 Internal Audit Progress Report

- 33.1 Ms L Davies, RSM, provided an update on progress made against the internal audit plan for 2018/19. Since the last meeting of the Committee, the audit of Use of Risk Management had been finalised and this had received an audit opinion of substantial assurance.
- 33.2 Ms Davies reported that Cambridgeshire and Peterborough Fire and Rescue Services had advised that they did not wish to proceed with a joint audit of cyber security.
- 33.3 The Assistant Chief Officer advised that the ICT Service had recently undertaken a cyber security assessment against the government framework. She would clarify the position regarding the audit with the other Services involved as it had been intended that this would form part of Cambridgeshire's annual review for its ISO accreditation.
- 33.4 Members expressed the view that they did not wish this audit to be removed from the internal audit programme.

**RESOLVED:**

That the report be received.

#### 18-19/AS/034 Audit and Governance Action Plan Monitoring - Exception Report and Summary Analysis

- 34.1 The Assistant Chief Officer presented the Committee with a summary statistical analysis of actions arising from internal audit reports over the last three financial years to date and from the Authority's current Annual Governance Statement.
- 34.2. There were no current exception reports and the actions that had been delayed as a result of the additional resource required to support the HMICFRS inspection had now been either completed or were in progress.
- 34.3 The Assistant Chief Officer reminded the Committee that the Review of the Fire and Rescue Authority's Effectiveness had been deferred to 2019/20, pending the outcome of the current review of governance arrangements.
- 34.4 The Chair commented that performance against the actions had improved since the current monitoring processes had been implemented.

#### **RESOLVED:**

That the report be received.

#### 18-19/AS/035 Review of "Monitored Policies"

- 35.1 The Assistant Chief Officer submitted a review of the policies on Protected Reporting (Whistleblowing), Anti-Fraud, Bribery and Corruption incorporating the National Fraud Initiative (NFI), Use of Regulation of Investigatory Powers Act 2000 (RIPA) and the Authority's Complaints and Compliments process.
- 35.2 RIPA powers had not been used during the reporting period. The Service's use of RIPA powers had been audited in 2016. The outcome of this was positive and a further audit would take place in 2020.
- 35.3 In response to a question, the Assistant Chief Officer advised that the authorising Officer was the Officer on duty at an operational incident, usually the Area Manager.

- 35.4 The Assistant Chief Officer advised that she would circulate the audit report on RIPA from 2016, as well as the current RIPA policy, to Members of the Committee for information.
- 35.5 There had been no complaints received under the Service's Protected Reporting (Whistleblowing) Policy and no cases of suspected fraud reported under the Anti-Fraud, Bribery and Corruption Policy.
- 35.6 The number of complaints had increased significantly from 2017/18. Four complaints had been received in relation to use of social media, all of which had been upheld. There had also been an increase in complaints relating to inappropriate behaviour. Three such complaints had been received, with one being upheld.
- 35.7 In response to questions, the Assistant Chief Officer reported that the service had a clear policy on the use of social media and that this was communicated regularly through the Blue Bulletin.
- 35.8 One complaint during the period had progressed to Stage 2. This had now been resolved.
- 35.9 The Assistant Chief Officer reported that the National Fraud Initiative process had commenced in October 2018, with matches expected to be released in January 2019.

**RESOLVED:**

1. That the arrangements in place for the Protected Reporting (Whistleblowing) policy, the Anti-Fraud, Bribery and Corruption policy incorporating the National Fraud Initiative (NFI), Use of Regulation of Investigatory Powers Act 2000 (RIPA) and the Authority's Complaints and Compliments process and the arrangements for their review be noted.
2. That the Assistant Chief Officer circulate the 2016 audit report on the use of RIPA, as well as the current RIPA Policy, to Members of the Committee for information.

18-19/AS/036 Annual Report on Registration of Interests and Gifts/Hospitality

- 36.1 The Secretary and Monitoring Officer introduced his annual report on the registration of interests and gifts/hospitality by Members during the past year.

36.2 All Members had updated their register of interest forms since June 2018 and no entries had been made on the register of gifts and hospitality.

**RESOLVED:**

That the report be acknowledged.

18-19/AS/037 Review of the Effectiveness of the Fire and Rescue Authority's Internal Auditors

- 37.1 The Head of Finance and Treasurer introduced his report on the effectiveness of the Fire and Rescue Authority's Internal Audit arrangements. This had been referred to the Committee by the Humans Resources Policy and Challenge Group following concerns being raised at a national level about the effectiveness of the big four audit firms.
- 37.2 The Committee was advised that the services of RSM were jointly procured with Essex and Cambridgeshire Fire and Rescue Services.
- 37.3 RSM conformed with the Global Institute of Internal Auditors (GIIA) International Professional Practice Framework (IPF) and was subject to external quality assessment every five years. The most recent assessment had been undertaken in 2016 by the Chartered Institute of Internal Auditors and this had concluded that RSM had "a robust approach to the annual and assignment planning processes and the documentation reviewed was thorough in both terms of reports provided to Audit & Standards Committee and the supporting working papers. RSM were found to have an excellent level of conformance with the IIA's profession standards, including the Public Sector Internal Audit Standards."
- 37.4 Ms L Davies added that RSM was one of only a handful of organisations that had had such as assessment undertaken and that RSM also had internal technical and quality teams that reviewed the work undertaken by the organisation on a regular basis.
- 37.5 Mr N Harris of Ernst & Young introduced himself and advised that Ernst & Young was in the process of contributing to a number of national reviews into the audit profession, including the Kingman review, and that he would be willing to share information about Ernst & Young's quality assurance processes with the Committee at a future meeting.

**RESOLVED:**

1. That the report be received and that the effectiveness of the Fire and Rescue Authority's Internal Audit arrangements be confirmed.
2. That the Committee review the effectiveness of the internal audit arrangements on an annual basis.
3. That the Committee receive a report on Ernst & Young's quality assurance processes at a future meeting.

18-19/AS/038 Statement of Assurance

38.1 The Committee received the Statement of Assurance to the Committee for onward submission to the full Authority.

38.2 It was noted that a number of changes were required and the Committee went through the document page by page, suggesting the following changes:

- Page 2- index- the section numbering in the document should reflect that as set out in the index and that page numbers should be checked to ensure that the appropriate page was being referenced.
- Page 4 – links should be added to all documents that are publicly available on the Service website.
- Page 8 - the criteria published by the Comptroller and Auditor General that was relevant was from November 2017, not 2016 as stated in the report. The phrase “more visibly effective” should be removed from the end of the first sentence of the second paragraph under section 3.4. A quote from the external auditor's opinion on the Statement of Accounts should be included in the last paragraph of section 3.3.
- Page 10 – the Chief Fire Officer's appraisal and the objectives set should be included in the list of internal control measures.
- Page 11- reference to the Statement of Assurance 2017/18 should be removed from the bullet points listed under the second paragraph of 4.1.
- Page 12 – the decrease in incidents attended during 2017/18 should be caveated by including “this is in part due to the temporary cessation of co-responding” in 4.2.1. In the third sentence of 4.2.2 “are” should be replaced with “our”. The second sentence in 4.2.3 should be reworded so that it reads as: “BFRS continues to work with partner agencies in order to target advice and guidance on fire safety awareness in the home to those most at risk in the community”.
- Page 13 – the text for 1.1.1 to be reworded to “the number of Road Traffic Incidents is increasing year on year”. In 1.1.4 an “s” needed to be added at the end of “Home Fire Safety Check” on line 7.

- Page 14 -the word “apparent” should be removed from the sentence on the increase in accidental dwelling fires. In section 1.1.5 the “and” in the second line should be replaced with “a” and the second sentence should refer to an “intelligence” led approach.
- Page 15 – the dates in the penultimate paragraph should be updated to 2018 and the CRMP period to 2019-2023 and it “is” currently still in draft. Reference to HFSCs in the section should be replaced with Safe and Well visits.
- Page 16- the spelling of neighbouring needed to be amended. The last bullet point under section 4.5 should start with the word “facilitate”. “Aide” should be replaced in the first sentence of the third paragraph by “aid”.
- Page 17 – in the fourth paragraph, the word “only” should be removed from the first sentence and “that has a” should be added after FRSSs.
- Page 18- reference to police co-locations should be replaced with “shared locations”. “Hotspot crime areas” to be replaced with “crime hotspot” areas.
- Page 19- the last bullet point should refer to “electronic membership applications”, not “membership electronic applications”. In the second paragraph on the page “will” should be replaced with “could”.
- Page 20 – the dates in the last paragraph needed to be updated. “Exploration of a shared Headquarters” should be included in the list of collaborative opportunities with Bedfordshire Police.
- That the use of “BFRA” and “BFRS” were consistently applied throughout the document.

38.3 The Committee agreed all the changes and noted that the Statement would be submitted to a future meeting of the Fire and Rescue Authority.

**RESOLVED:**

That, subject to the changes as discussed at the meeting being made, the Chair of the Committee be authorised to sign off the Statement of Assurance for reporting to the full Authority Meeting.

18-19/AS/039 Corporate Risk Register

39.1 The Assistant Chief Officer submitted the review of the Service’s Corporate Risk Register. All changes and updates to risks had been considered by the relevant Policy and Challenge Group.

- 39.2 There had been no changes to risk ratings.
- 39.3 There had been eight updates to risks in the Corporate Services Risk Register, three updates to the Service Delivery Risk Register and one update to the Human Resources Risk Register.
- 39.4 The issue of Brexit risk had been raised at the Corporate Services Policy and Challenge Group. Whether an additional, stand-alone risk was required was being considered at the six-monthly meeting of the Corporate Management Team and Strategic Management Team at its meeting on 10 December 2018.

**RESOLVED:**

1. That the continuing development of the Service's Corporate Risk Register be acknowledged.
2. That it be acknowledged that the appropriate Policy and Challenge Groups have considered and reviewed controls proposed to reduce the identified risks.
3. That the work taking place to identify the risks associated with Brexit be acknowledged.

18-19/AS/040 Work Programme

- 40.1 The Committee considered the proposed work programme for 2018/19 and noted that, as the decision had been made to defer the Review of Effectiveness, this item had been removed from the Committee's work programme for 2018/19.
- 40.2 Members requested a report on the results of the HMICFRS inspection.
- 40.3 It was noted that the dates relating to the audit programmes needed to be updated.

**RESOLVED:**

That the Committee's Work Programme for 2018/19 be received, subject to the inclusion of an item on the HMICFRS inspection.



18-19/AS/041 Local Government Act 1972, Schedule 12A, Paragraph 3 of Part 1: Exclusion of the Public

**RESOLVED:**

That, pursuant to Sections 100A(2) and 100A(4) of the Local Government Act 1972, the public be excluded from the discussion of the following item on the grounds that the matters to be discussed involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act (as amended):

Item

FRA Requested Report

The meeting closed at 12.23pm

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For Publication

Bedfordshire Fire and Rescue Authority  
Audit and Standards Committee  
14 March 2019  
Item No. 6

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**REPORT AUTHOR:** CHIEF FIRE OFFICER

**SUBJECT:** EXTERNAL AUDIT PLAN 2018/19

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For further information on this report contact: Gavin Chambers  
T/ACO Finance and Corporate Services and Treasurer  
Tel No: 01234 845016

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Background Papers: None

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Implications (tick ✓):

LEGAL			FINANCIAL	✓
HUMAN RESOURCES			EQUALITY IMPACT	
ENVIRONMENTAL			POLICY	
CORPORATE RISK	Known	✓	OTHER (please specify)	
	New		CORE BRIEF	

*Any implications affecting this report are noted at the end of the report.*

---

**PURPOSE:**

To receive and consider the 2018/19 External Audit Plan provided by Ernst & Young, the Fire and Rescue Authority's external auditor.

**RECOMMENDATION:**

That the submitted report be received.

---

1. Introduction

- 1.1 The 2018/19 external Audit plan provided by Ernst & Young for the Fire and Rescue Authority is appended for Members' consideration.

**PAUL FULLER CBE QFSM MStJ DL  
CHIEF FIRE OFFICER**

A high-angle, close-up photograph of several people's hands and forearms gathered around a white table. They are looking at and pointing to various documents and papers spread across the surface. A smartphone is visible on the table. The scene is brightly lit, suggesting an office or meeting environment.

# Bedfordshire Fire and Rescue Authority

## Audit planning report

Year ended 31 March 2019

14 March 2019



Private and Confidential  
Bedfordshire Fire and Rescue Authority  
Southfields Road  
Kempston  
MK42 7NR

14 March 2019

Dear Audit and Standards Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit and Standards Committee with a basis to review our proposed audit approach and scope for the 2018/19 audit 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. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Authority, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit and Standards Committee 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 14 March 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Neil Harris  
For and on behalf of Ernst & Young LLP

# 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.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 Audit and Standards Committee and management of Bedfordshire Fire and Rescue Authority in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Standards Committee, and management of Bedfordshire Fire and Rescue 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 Audit and Standards Committee and management of Bedfordshire Fire and Rescue 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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01

# Overview of our 2018/19 audit strategy





# Overview of our 2018/19 audit strategy

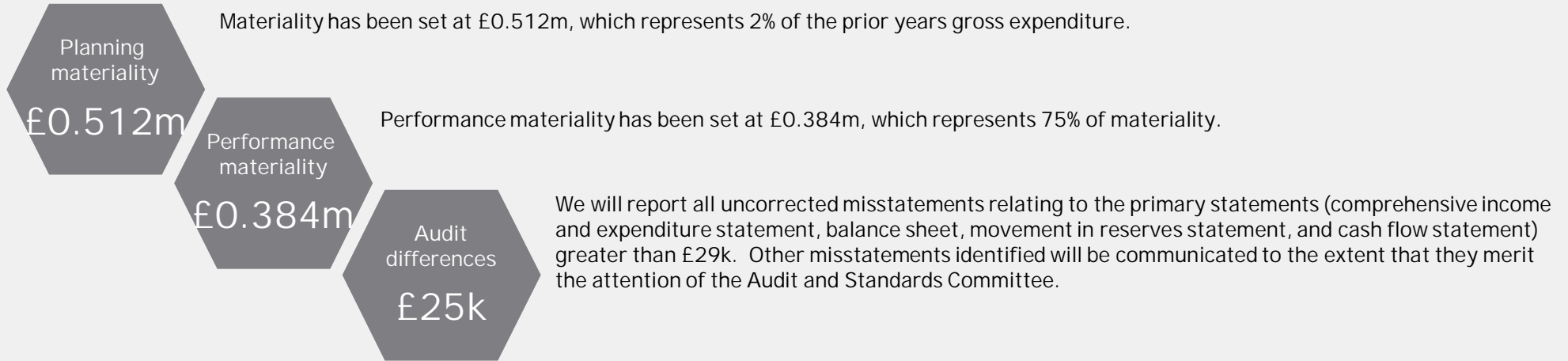
The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Standards Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of Management Override	Significant Risk/Fraud	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.
Property, Plant and Equipment Valuations	Other Risk	No change in risk or focus	Property, plant and equipment (PPE) represents a significant balance in the Authority's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. As the Authority's asset base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk PPE may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.
Pension Valuation and Disclosures	Other 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 the Fire Fighters Pension Scheme and the Local Government Pension Scheme (LGPS). The Authority's deficits under both schemes are disclosed on a combined basis on the Authority's balance sheet. The total value was £332 million as at 31 March 2018 and represents a material and sensitive balance. The information disclosed is based on the IAS 19 reports issued to the Authority by the Actuaries for both schemes. Accounting for these schemes involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.

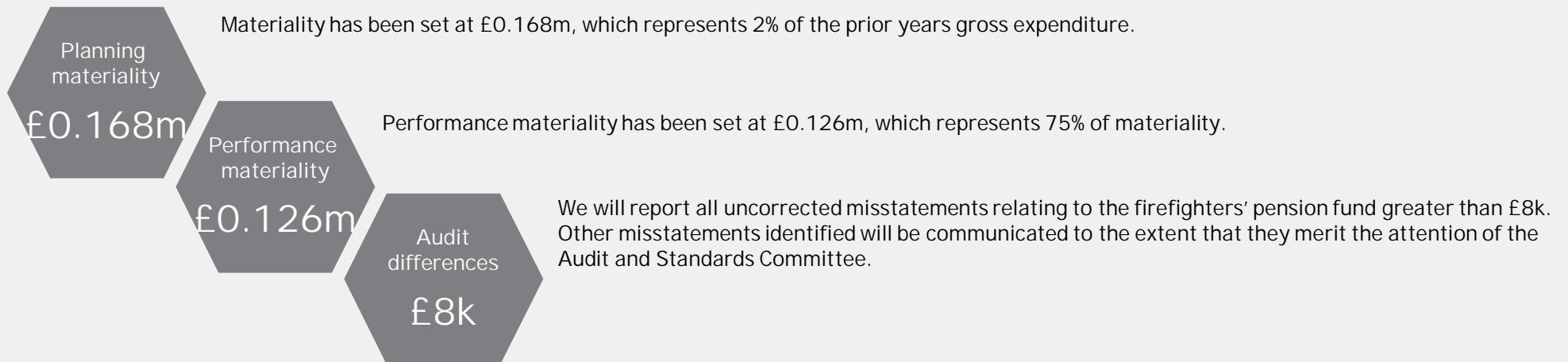
# Overview of our 2018/19 audit strategy

## Materiality



We set separate materiality values for the Firefighters' Pension Fund Account which is included as part of the overall financial statements of the Authority. These are set out below.

## Materiality Firefighters' Pension Fund account



# Overview of our 2018/19 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 Bedfordshire Fire and Rescue Authority give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and
- Our conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

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.

## Audit team changes

Key changes to our team.



Neil Harris  
Associate Partner  
Neil has 20+ years local government audit experience  
Neil is the engagement lead and is responsible for providing the audit opinion



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# 02 Audit risks



## Our response to significant risks

Misstatements due to fraud or error

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 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 otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

### What will we do?

- Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assess accounting estimates for evidence of management bias, and
- Evaluate the business rationale for significant unusual transactions.

## Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

### What is the risk/area of focus?

#### Valuation of Land and Buildings

Property, plant and equipment (PPE) represents a significant balance in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet.

As the Authority's asset base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk PPE may be under/overstated or the associated accounting entries incorrectly posted.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

#### Pension Liability Valuation

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 and the Firefighter's Pension Scheme.

The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2018 this totalled £332 million.

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary.

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.

### What will we do?

#### We will:

- Consider the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test accounting entries have been correctly processed in the financial statements,

#### We will:

- Liaise with the auditors of Bedfordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Bedfordshire Fire and Rescue Authority for the Local Government Pension Scheme (LGPS);
- Assess the work of the Pension Fund actuary for the two schemes Hymans Robertson (LGPS) and the Government Actuary's Department (Firefighters' Pension Scheme). Including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Review and test the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.



03

# Value for Money Risks





## Background

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. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

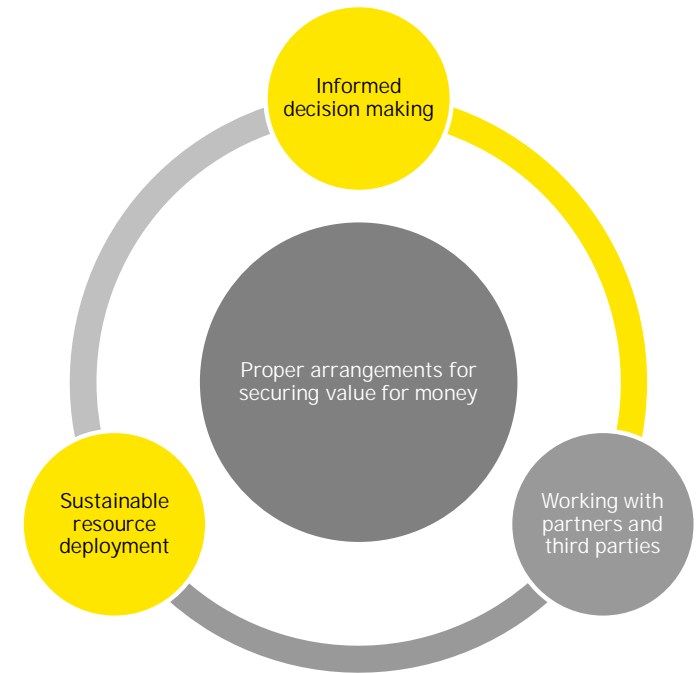
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this has included consideration of the steps taken by the Authority to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of no significant risks at this stage. We will be completing a review of the Authority’s financial resilience. If this identifies any significant risks, we will update our plan.







04

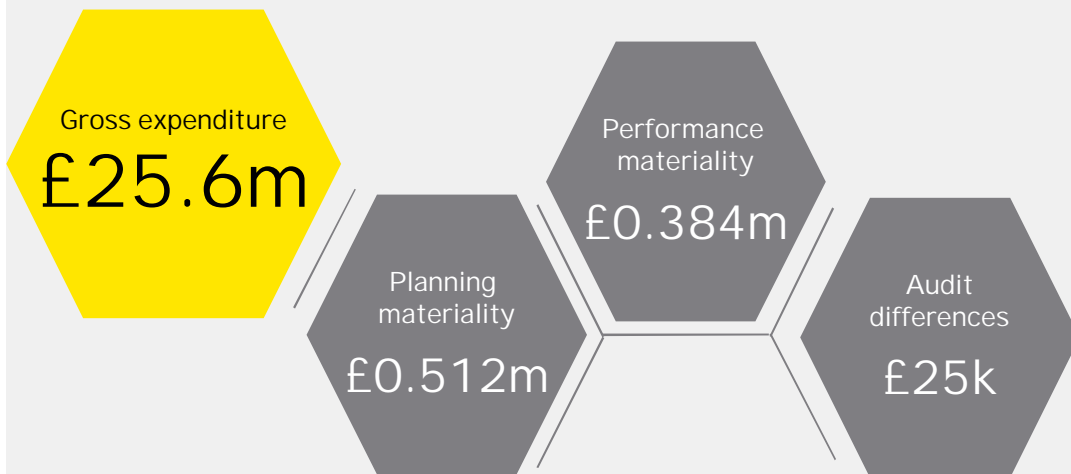
# Audit materiality



## Materiality

### Materiality

For planning purposes, materiality for 2018/19 has been set at £0.512m. This represents 2% of the Authority's prior year gross expenditure. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit and Standards Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

### Key definitions

**Planning materiality** – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.384m which represents 75% of planning materiality.

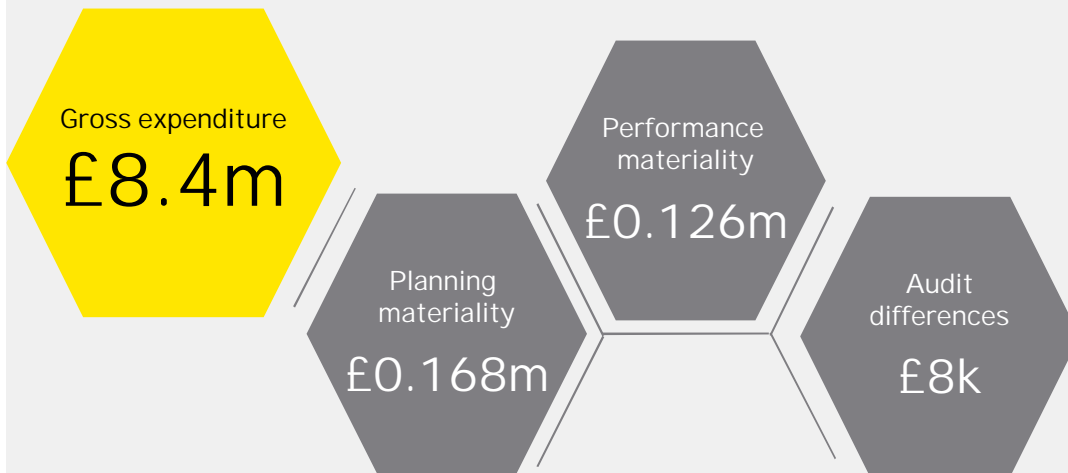
**Audit difference threshold** – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, and balance sheet that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit and Standards Committee, or are important from a qualitative perspective.

## Materiality (Firefighters' Pension Fund Account)

### Materiality

For planning purposes, materiality for 2018/19 has been set at £0.168m. This represents 2% of the Authority's prior year gross expenditure. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit and Standards Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

### Key definitions

**Planning materiality** – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.126m which represents 75% of planning materiality.

**Audit difference threshold** – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the Firefighters' Pension Fund.

Other uncorrected misstatements, such as reclassifications and misstatements in disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit and Standards Committee, or are important from a qualitative perspective.



05

# 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 review and report on the Authority's financial statements and 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 objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

#### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO [delete if not applicable]

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

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.

## 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 2018/19 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. Although we are therefore not intending to rely on individual system controls in 2018/19, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

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 Audit and Standards Committee.

Internal audit:

We will 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 plan, where they raise issues that could have an impact on the financial statements.

## Our Audit Process and Strategy (continued)

### Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements:

- The Authority now has less time to prepare the financial statements and supporting working papers. Risks to the Authority include slippage in delivering data for analytics work in format and to time required, late working papers, internal quality assurance arrangements, and changes to finance team
- As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Authority staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

To support the Authority we will:

- Work with the Authority to engage early to facilitate early substantive testing where appropriate.
- Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2018/19 financial year.
- Work with the Authority to improve the use of EY Client Portal, this will:
  - Streamline our audit requests through a reduction of emails and improved means of communication;
  - Provide on-demand visibility into the status of audit requests and the overall audit status;
  - Reduce risk of duplicate requests; and
  - Provide better security of sensitive data.
- Agree the team and timing of each element of our work with you.
- Agree the supporting working papers that we require to complete our audit.



06

Audit team





# Audit team

Audit team structure:

Neil Harris  
Associate Partner

Rama Karia  
Senior

EY Actuaries

EY Valuations  
Team

## Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Valuations Team. We will consider any valuation aspects that may require EY valuation specialists to review any material specialist assets and the underlying assumptions used.
Pensions disclosure	EY Actuaries

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Authority's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



# 07 Audit timeline





# Audit timeline

## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19.

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

Audit phase	Timetable	Audit and Standards Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes	December/January	Audit and Standards Committee 14 <sup>th</sup> March	Audit Planning Report
Interim audit testing	April		
Year end audit	June/July	Audit and Standards Committee 10 <sup>th</sup> July	Audit Results Report
Audit Completion procedures	July	Audit and Standards Committee 10 <sup>th</sup> July	Audit Results Report
Conclusion of reporting	September	Audit and Standards Committee	Audit opinions and completion certificates Annual Audit Letter





08

Independence



## Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

### Required communications

#### Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence.
- ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]

#### Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Written confirmation that all covered persons are independent;
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Neil Harris, your audit engagement partner and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Authority. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non-audit fees to audit fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is 0%. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no self interest threats at the date of this report.

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Authority. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

## Relationships, services and related threats and safeguards

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

### EY Transparency Report 2018

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>





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# Appendices



# Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2018/19 accounts of opted-in principal local government and police bodies. 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.

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	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£	£	£
Total Fee – Code work	23,271	23,271	30,222
Non-audit work	0	0	0
<b>Total fees</b>	<b>23,271</b>	<b>23,271</b>	<b>30,222</b>

All fees exclude VAT

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, matters drawn to our attention and formal objections will be charged in addition to the scale fee.



## Appendix B

# Required communications with the Audit and Standards Committee

We have detailed the communications that we must provide to the Audit and Standards Committee.





Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit and Standards Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Corrected misstatements that are significant</li> <li>• Material misstatements corrected by management</li> </ul>	Audit results report

## Appendix B

# Required communications with the Audit and Standards Committee (continued)

### Our Reporting to you



Required communications	 What is reported?	 When and where
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit and Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• A discussion of any other matters related to fraud</li> </ul>	Audit results report
Related parties	<ul style="list-style-type: none"> <li>• Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit Planning Report and Audit Results Report

## Appendix B

# Required communications with the Audit and Standards Committee (continued)



Our Reporting to you

Required communications	 What is reported?	 When and where
External confirmations	<ul style="list-style-type: none"> <li>Management's refusal for us to request confirmations</li> <li>Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>Enquiry of the Audit and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Standards Committee may be aware of</li> </ul>	Audit results report
Internal controls	<ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit</li> </ul>	Management letter/audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit plan is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit planning report Audit results report
Certification work	Summary of certification work undertaken	Certification report

## Additional audit information

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Authority to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit and Standards Committee reporting appropriately addresses matters communicated by us to the Audit and Standards Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

## Additional audit information (continued)

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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For Publication

Bedfordshire Fire and Rescue Authority  
Audit and Standards Committee  
14 March 2019  
Item No. 7

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**REPORT AUTHOR:** CHIEF FIRE OFFICER  
**SUBJECT:** ERNST & YOUNG QUALITY ASSURANCE PROCESSES

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For further information on this Report contact: Karen Daniels  
Service Assurance Manager  
Tel: 01234 845013

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Background Papers: None

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Implications (tick ✓):

LEGAL			FINANCIAL	
HUMAN RESOURCES			EQUALITY IMPACT	
ENVIRONMENTAL			POLICY	✓
CORPORATE RISK	Known	✓	OTHER (please specify)	
	New			

*Any implications affecting this report are noted at the end of the report.*

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**PURPOSE:**

To consider the quality assurance processes in place for the Fire and Rescue Authority's External Audit arrangements.

**RECOMMENDATION:**

For the Audit and Standards Committee to consider the report and confirm the effectiveness of the quality assurance processes of the Fire and Rescue Authority's external auditors Ernst and Young.

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**1. Introduction**

- 1.1 At the Audit and Standards Committee meeting on 6 December 2018, it was requested that a report be presented at a future meeting to consider the effectiveness of the Authority's external auditors quality assurance processes. This was following a similar report on Internal Audit and given the significant concerns raised nationally about the big four auditing firms in the United Kingdom.

**2. Background**

- 2.1 In 2016, the Authority opted to participate in the Public Sector Audit Appointments (PSAA) arrangements for the provision of external audit. This would be with effect for the audit of 2018/19 accounts onwards. The Authority's external auditors at the time were Ernst & Young (E&Y) and prior to this the Audit Commission.

The PSAA national scheme for external auditor appointments concluded in 2017, with the continuation for the Authority of E&Y for the accounting periods 2018/19 to 2022/23.

Under the PSAA scheme, it avoids certain actions for the Authority including:

- Monitoring the independence of the appointed auditor for the duration of the appointment,
- Dealing with the replacement of the auditor if required; and
- Managing the contract with the auditor.

PSAA will also monitor the ongoing independence of external auditors and ensure adherence to the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice and the Statement of Responsibilities issued by PSAA.

### 3. External Audit Services

- 3.1 E&Y attend all Audit and Standards Committee meetings where Members can review when presented, the Audit Strategy, Progress and Annual reports. This provides the Authority the opportunity to ask questions, challenge reports and request clarification to provide greater transparency.

E&Y will annually provide an opinion on whether the Authority's financial statements give a true and fair view of the Authority's financial position at 31 March and the income and expenditure for that year ended. E&Y will also provide a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

- 3.2 The Temporary Assistant Chief Officer as Treasurer, regularly meets with the Authority's Engagement Partner Neil Harris, Associate Partner at E&Y.

### 4. Ernst and Young Transparency Report

- 4.1 In 2018 Ernst and Young Published a Transparency report. The document provides a comprehensive overview of the quality assurance processes across the firm, including the Government and Public Sector engagements. It provides information on from an E&Y perspective:-

- Our culture and tone at the top
- Our response to market reviews and the concept of 'Trust in Audit'.
- Our sustainable audit quality programme, including our internal and external quality review processes.
- How we manage our people, including diversity and inclusiveness.
- Our financial results and performance.
- Our risk management arrangements.
- Our legal and governance structures.

For information on the full report click on the link:- [https://www.ey.com/Publication/vwLUAssets/ey-uk-2018-transparency-report/\\$File/ey-uk-2018-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2018-transparency-report/$File/ey-uk-2018-transparency-report.pdf)

4.2 The copy of the section of the report specifically relating to 'Trust in audit' is appended to this report.

**PAUL FULLER CBE QFSM MStJ DL  
CHIEF FIRE OFFICER**



**Section 2**

**Trust in audit**

## Trust in audit

In the EY UK 2017 Transparency Report we published key findings from our 2017 EY Cultural Assessment, which included the following high level observations:

- ▶ Our people's personal values align with EY's stated purpose, strategy and values
- ▶ Our strategic priorities are dominant in EY's current culture
- ▶ Quality is a dominant focus area in the UK Audit culture

We also noted a desire by our people for more focus on our purpose, and the risk to sustainable audit quality that a long-hours culture may present. The positive link between employee engagement and cultural health was also made clear.

We applied these observations to inform, and in some instances recalibrate, our business activities over the last financial year. In this section we set out how we have been building on the identified cultural strengths and responding to areas for development. The steps we took were deliberately diverse, to enable a holistic approach. As set out on the following pages of this section, they focused on:

- ▶ Tone at the top (pages 18-21)  
Strengthening our people's connection with our purpose of Building a Better Working World
- ▶ Our commitment to audit quality (pages 21-38)  
Applying a root cause analysis (RCA) to get a better understanding of where we have fallen short and responding to feedback from the external audit inspections conducted by the Financial Reporting Council (FRC) and our internal quality reviews, in order to 'reset and start again'
- ▶ Technology and the future of assurance (pages 39-43)  
Investing in technology, which will allow audits to be delivered in an increasingly efficient and effective way and develop an enhanced assurance offering of the future
- ▶ Listening to the demands of our stakeholders (pages 44-45)

## Tone at the top

In a remarkably short period, we have watched our world being transformed by robotics and artificial intelligence (AI). We have also witnessed major economic and political shifts that have significantly affected the global business community and society.

Our research suggests that recently the profession has lost sight of the difference it makes and the value it provides to society. So as part of our work to help reshape the auditing profession, we are working with the professional bodies to address this loss in professional self-esteem.

With this in mind, over the past year our leadership has focused heavily on strengthening our people's connection with the EY purpose of Building a Better Working World. The EY UK Chairman and other leaders - aware of how they set the tone for our business - engaged in a campaign emphasising the importance of the EY purpose in delivering on the EY Vision 2020+ strategy, and the critical role our people play in defining who EY is as an organisation. We are pleased that in our latest audit quality survey **97%** of our audit people replied positively when asked whether they understood their role as an auditor in providing independent assurance, supporting strong capital markets and protecting the public interest.

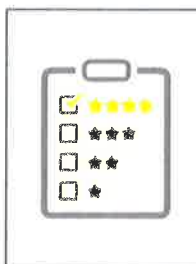
We have also continued our work in assessing the tone our leadership sets for our business. All interactions with and communications from our leadership have the potential to communicate to our people the behaviours that are valued most by our organisation. While some of these, such as our town halls and what is said during meetings, are difficult to measure, others, such as emails and other written communications from leadership, offer useful data points on how our leaders' words align with our values. For this reason, these communications are monitored and assessed each year by the EY EMEA Risk Management team. A range of different topics are covered to include quality in service delivery, with a particular focus on audit quality, financial crime, data security, data privacy, independence, health and safety and other risk management topics. In addition, at one of the FY18 Partner Conferences, the Assurance Managing Partner and the Risk Management Managing Partner co-presented a session called 'Trust', which is part of the FY19 firm-wide strategy.

To increase the effectiveness of delivery, EY UK uses a variety of different delivery methods such as emails, webcasts, daily news alerts, posters and plasma screens, online games and others.

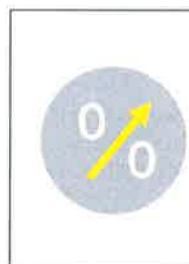
### Case Study: Building a Better Working World game

The Better Working World game is played face-to-face and allows our people to think about our purpose and how it connects with their day-to-day role.

The game is based on a discussion but uses quiz elements and a board to keep things competitive and fun. It is collaborative and inclusive of all service lines, ranks and roles. The board, made with sustainable materials, selected game cards and even the box itself reveal video, case studies and mini-games with augmented reality content.



Our latest FY18 People Survey scores indicate a **7%** increase in those who felt EY's purpose was motivating to them



Reversing a score that decreased by **6%** in the prior year.

Complementary to these efforts, we also launched a new platform to collate examples of how individuals, teams and we as a firm have delivered on our purpose. Numerous inspiring video case studies from across the EY UK business are now being widely shared.

We continued to work with cognitive psychologists to assess what gives people fulfilment in their careers. As a consequence we are now confident that we can do more to emphasise how every day-to-day activity aligns with our overall professional purpose and the value it brings to our clients. For this reason the formalisation and rollout of the psychologists' work is a priority for the coming year as we look to embed the core aspects of employee fulfilment within the audit practice.

## Tone at the top - culture

In our rapidly changing world, responsibility for good corporate governance extends well beyond the implementation and maintenance of policies and controls. Good behaviours and decision-making by an organisation's people are also the products of the culture an organisation lives. Increasingly, boards are viewed as having ultimate responsibility for the oversight of the culture within their organisations. As a result, good corporate governance includes an unqualified expectation that organisations actively monitor their culture, maintain a continuous feedback loop from staff to leadership and take steps to address any observations that may suggest a misalignment exists between culture, behaviours and the organisation's stated purpose and values.

We promote a culture of openness that encourages people to engage in constructive discussions and share problems, knowledge and experience. We do this in a number of ways, including but not limited to:

### Firm wide

- ▶ Quarterly Leadership Evaluation and Development (LEAD) feedback cycles introduced in the current year
- ▶ EY Voice - a dedicated forum of elected representatives across EY that listens to the collective voice of the business and how people are feeling
- ▶ Surveys
- ▶ Whistleblowing hotline
- ▶ Values based awards for individuals, as well as teams

### Audit specific

- ▶ Implementing Purpose Led Outcome-oriented Thinking (PLOT) across our audit practice - an approach launched in 2016 and which forms the basis of our EY Expert Model
- ▶ Teams supported by the Engagement Quality Control Reviewer (EQCR) and the Audit Quality Support Team (AQST)
- ▶ Publishing stories of the Audit Culture Coins recipients (discussed below)
- ▶ Quality summits and training academies, along with webinars, during which we share experiences of quality reviews and best practice examples
- ▶ Team Planning Events (TPEs) for audit teams during which managers and senior managers solicit the views of junior team members.

Although much is said about the development of technology in auditing, and the importance of auditing standards which effectively drive the auditors' methodology, the human factor is perhaps the most critical component of any audit firm.

Technical skills and competencies of auditors, including professional scepticism, are all underpinned by the values and behaviours of those individuals - leaders and team members alike. For this reason we place a lot of emphasis on the importance of culture, in our firm more generally and most particularly in our audit practice.

We undertook a cultural assessment of EY UK in 2017. In performing this work, we applied the model that we use to assess the cultures of our clients' businesses. Our methodology included a review of both structured and unstructured qualitative and quantitative data, and applied a programme of advanced data analytics and statistical modelling. Key findings were published in the EY UK 2017 Transparency Report.

Our understanding of our culture has also been enhanced by the observations made as part of the 2018 FRC Audit Culture Thematic Review performed across eight large audit firms. The review covered important areas such as tone from the top, culture design and implementation, as well as other areas that help audit firms to promote, assess and monitor their audit culture.

The FRC noted that firms are investing considerable time and effort in their firm-wide culture, providing examples on how firms relate their purpose, values and encouraged behaviours to day-to-day activities. The FRC indicated a number of areas where the audit firms could better promote and embed an appropriate culture; we have developed actions in response to the recommendations and will agree them with the FRC.

We are pleased with this report. Most of the best practices identified by the FRC across the firms reviewed are present at EY. In particular, we are pleased that the FRC chose our Audit Culture Coins programme as a case study in its report.



## Tone at the top - culture

### Case Study: Audit Quality Culture Coins Reward Programme

Our Audit Culture Coins is a recognition scheme that focuses on non-monetary reward for those who embody the organisation's values and commitment to audit quality.

The scheme started in 2016, when more than 30 audit partners were named coin sponsors across all EY offices. They were asked to nominate colleagues to receive the coin - a gift that recognises personal contribution to audit quality and living our audit quality values. The coin recipient is then given a second coin to 'gift' to another colleague in the subsequent quarter. We publish the stories of all coin receivers in a quarterly newsletter to all auditors. In this way we provide others with examples of 'what great looks like' and we affirm the benefits of 'living the EY values'. Although the award and stories are personal, the social recognition that the scheme provides helps to promote a sense of camaraderie and a collective celebration success.

Our organisation encourages nominations for people at all levels. **114** people were recognised for their exceptional audit quality stories in FY18.

Having used FY18 to introduce and promote programmes designed to increase cultural health, and following the success of our 2017 EY cultural assessment in the UK, we are planning to undertake another cultural assessment by the end of 2019. The bi-annual nature of the assessment will provide a lens as to the impact of the various programmes we promoted in FY18, as well as providing insights into how our culture has evolved more generally. We expect that the results of the 2019 assessment will be available to be reported in our 2019 EY UK Transparency Report.

## Quality

The whole firm, not just the audit practice, appreciates the importance of our role as auditors. Our audit ethos is embedded throughout our organisation. We are committed to serving the public interest and the need to maintain our independence and objectivity.



Our annual audit quality survey results show that **98%** of our audit people believe that they delivered, supported or contributed towards the delivery of quality audits during FY18 and **90%** believe EY places sufficient emphasis on audit quality. We are proud of these results.

EY UK has designed and implemented a comprehensive set of global audit quality control policies and practices. These meet the requirements of the International Standards on Quality Control (ISQC) issued by the International Auditing and Assurance Standards Board (IAASB). EY UK adopted these global policies and procedures and supplemented them as necessary to comply with local laws and professional guidelines, and to address specific business needs.

Although we believe we have delivered improvements in audit quality, we know that we have not achieved the consistency we wanted, given the drop in our most recent regulatory results following three years of consecutive increases in quality ratings. In the most recent inspection by the FRC, although 82% of our FTSE 350 audits were graded as requiring no more than limited improvement (just eight percent points below the FRC 90% target), overall only 67% of all EY UK's audits inspected were graded as requiring no more than limited improvements, compared to 88% in the prior year. On the following pages we set out a detailed commentary on these results and our response. We also discuss our investment and approach to audit quality, how we are enhancing our UK Sustainable Audit Quality (SAQ) programme and consider audit quality from the viewpoint of key stakeholders: investors, audit committees, companies, regulators and our people.

We take results from audit quality reviews seriously and ensure we maintain a fair balance between rewarding high audit quality and sanctioning underperformance in this area.

Every audit partner and associate partner, who sign audit opinions, are subject to a performance review conducted by an Audit Quality Panel. The performance review considers a number of factors, including grades from the external and internal quality inspections. The panel ensures that both good and unsatisfactory audit quality inspections are fairly reflected in the performance review of the individuals.

Furthermore, our performance review system includes quality grades for staff. For levels above manager the inspection review results have a direct impact on the audit quality grading. Quality grades are linked to individuals' compensation. In addition, we have various non-monetary recognition schemes in place to reward and promote a culture of high audit quality, such as the Audit Culture Coins described earlier.

On the following pages we set out:

- ▶ Our SAQ programme and the activities of the Audit Quality Board (AQB)
- ▶ The results of external inspections of EY UK's audits conducted by the FRC's Audit Quality Review Team (AQRT), the ICAEW's (Institute of Chartered Accountants in England and Wales) Quality Assurance Department (QAD) and the US Public Company Accounting and Oversight Board (PCAOB)
- ▶ The results of our internal Audit Quality Review (AQR) process
- ▶ RCA of our internal and external audit inspection findings
- ▶ Information on skills and specialists
- ▶ The results of our Audit Quality Survey

## Quality - SAQ

### The UK Sustainable Audit Quality programme (SAQ) and the Audit Quality Board (AQB)

EY has made a significant global investment in audit quality and developed a comprehensive SAQ programme. The UK programme, now in its fifth year, is part of this initiative and partly originated from our disappointment in relation to the results of our FRC review published in May 2014.

In 2014 we carried out RCA on the results and invested significant time and effort to understand where we had gone wrong and what we needed to do to deliver audit quality at the level our stakeholders wanted on a consistent basis.

In response, we established the AQB as a permanent aspect of our governance structure, reporting directly to the Board of EY UK (the Board). The role of the AQB is to oversee all matters relating to audit quality and set the agenda for the SAQ programme.

In the early phases of the programme we held off-site strategy away days for the AQB. We involved psychologists to ascertain what good looked like, analysed feedback from our people and leavers and used surveys and focus groups to determine the areas where we needed to take action.

This resulted in us developing a programme based around 10 workstreams each led by a partner. We benefited from \$400m investment in technology in the global EY organisation, in particular in a new audit tool, EY Canvas, and in EY Helix, a suite of data analytics tools.

We also established a programme office and a regular reporting regime to the AQB to ensure actions were identified and followed through. The first FRC results for audits completed after we had set up the programme were those reported in May 2016, when we were delighted that 85% of our audits were graded as requiring no more than limited improvements.

During 2016 we commenced our work with cognitive psychologists. The feedback from our RCA in that year was that we needed to enhance coaching to improve audit quality further. We already had a coaching network and various initiatives in this area so we wanted to try a different approach. We knew that our people were, and are, highly motivated and want to deliver excellence and produce high quality audits. Many existing initiatives focused on what we didn't do well and were trying to address the problems and behaviours causing them. We decided to look at coaching differently. We spent many hours in workshops identifying our best teams: teams that had developed people and were recognised as teams people wanted to work in. The psychologists interviewed each individual team member in these teams for a couple of hours. From this rich material they developed a model of what people do when they deliver at their best – the EY Expert Model. Since then, we have been using this model, which has been a major focus area for us into FY18, alongside our work on project management (discussed later in this section).

Every year we organise a SAQ strategy day. At the most recent meeting, we reflected on the disappointment we felt in relation to our 2018 FRC results and on the intense scrutiny our profession is under. With this backdrop we decided that going into FY19 we needed to 'Reset and start again'. This means a further step change and additional investment in our SAQ programme.

Key to the success of our SAQ programme has been the continuous commitment of leadership to the investment in and delivery of the programme.

### Case Study: Audit Quality Summits

Each year EY UK hosts Audit Quality Summits that bring together over 400 partners, associate partners, directors and senior managers. The summits provide a launch platform for new initiatives aimed at improving audit quality. We also hear from regulators and other stakeholders. Our most recent summit had the theme 'Reset and start again' in response to the decline in our most recent FRC inspection results and reflecting the challenges facing the audit profession.

As part of the Audit Quality Summits, we hosted a series of plenary debates that included hearing directly from audit committee chairs, investors and the FRC. Our EY UK Independent Non-Executives (INEs) also attended these events.

## Quality - SAQ

### Activities of the AQB

The AQB meets monthly and also holds an annual strategy session.

The chair of the AQB prepares a report on the AQB's work, which is presented to the INEs at INE Oversight Committee (IOC) meetings. Rosemary Martin and Sir Peter Westmacott attended AQB meetings in FY18. The INEs are invited to attend the meetings in order to observe the work of the AQB.

The AQB receives regular updates on the SAQ programme, client pursuit approvals and audit transformation activities. The AQB also reviews a dashboard with Audit Quality Indicators (AQI) such as: results of internal and external quality reviews, partner and associate partner quality ratings, headcount, attrition rates, staff illness, audit unstaffed hours, audit hours on public interest entity (PIE) clients, and charged hours exceptions. Different leaders from the business present to the AQB on the dashboard or specific elements being measured, and the AQB raises matters to be followed up from its review.

During FY18 the AQB considered and agreed actions on a wide range of other topics including culture, performance and reward and the audit of taxation. The AQB periodically invites members of selected audit teams to present to them.

At EY we keep auditors accountable for delivering high-quality audits. Every year the AQB reviews the results of the external and internal audit quality inspection reviews. The AQB is informed about and also contributes to defining the rewards and sanctions process to address the outcomes of the reviews.

For FY19 the AQB has approved an enhancement to the SAQ programme and has established the priorities for the audit practice. These will help us to respond to the areas where we have not done as well as we should as well as helping us achieve the FRC's target of 90% of FTSE 350 audits requiring no more than limited improvements.

The top four priorities are to:

- 1 Promote desired behaviours with our EY Expert Model
- 2 Enhance our Audit Quality Support Team
- 3 Establish an Audit Risk Sub-Committee
- 4 Reinforce focus on project management

## Quality - SAQ

### 1 Promoting desired behaviours

During the last year we have continued to rollout the EY Expert Model which is based on the behaviours of our highest performing teams, as assessed by external cognitive psychologists. We have seen enthusiastic adoption of the model across the audit practice, and received positive feedback on the audit quality benefits from a number of early adopters who have undergone either internal or external quality inspections. We are currently enhancing the model to make more prominent the link between the societal purpose of our profession, the engagement's objectives, team members' day to day work and their career aspirations. For FY19 we are prioritising the extent and consistency of the model adoption, further embedding desirable behaviours into business-as-usual activity across all of our audit teams.

#### Case Study: Applying the EY Expert Model on a FTSE 250 audit

The model involves discussing audit areas, including business understanding, risks and developments, with the entire team. This ensures that all team members are fully up to date and know how each part of the work links to the overall audit. In this instance there was a great deal of change at the client and this sharing was critical, including with teams working on international components of the audit.

The team highlighted the benefit of significant and timely partner involvement at the earliest stages of the audit. The coaching aspect was also important with a continual focus on team members gaining new experiences and making sure, via regular coaching, that they were always clear about the specifics of their own work and how it fitted in to the whole process.

The team members really welcomed this way of working. Not only did their knowledge and skills develop, but they also felt satisfaction at being part of a team delivering a high quality audit. The coherence of the team and the audit was commented upon positively during the FRC's inspection of that audit.

### 2 Audit Quality Support Team (AQST)

Our AQST of experienced auditors was established to perform in-depth, independent, in-flight reviews of 40 to 50 audits each audit cycle. The AQST provides challenge and guidance to the engagement teams, as part of either a wide or narrow review. The AQST reviewer works with the team and reports findings to the team and EQCR during the reviews. AQST reviews enhance the quality of both the audit under review and other audits on which team members apply the lessons learned. The AQST also provides input to our learning and development programmes to benefit the rest of the audit practice, including identifying common themes and examples of good practice. The work of the AQST is overseen by the AQB who monitor progress and results at their monthly meetings.

For FY19 we are committed to increasing the AQST to help a larger number of audit teams to improve our audit quality. We will increase the investment in the team, including involving partners with significant experience of being an EQCR and who have acted as an expert witness in investigations into audit failure, broadening the composition of the team of reviewers. We will also increase the level of cooperation with the specialised team developed globally to support such audit reviews.

## Quality - SAQ

### 3 Audit Risk Sub-Committee

In the coming year EY UK will establish an Audit Risk Sub-Committee of the AQB. It is intended that the committee will expand our broader risk-scanning process to ensure that we are appropriately identifying our high risk clients and sectors. The committee will consider the adequacy of our response to higher risk audit engagements, including requesting that certain teams present to the committee on their work.

### 4 Project management

In FY17 we piloted the EY Global Milestones programme, primarily on large and complex clients. The programme is intended to promote desired behaviours by encouraging early planning and timely partner involvement.

Our RCA re-emphasised the importance and impact of early planning and timely executive involvement in our audits. Feedback from our audit teams and the outcome of internal reviews have further reinforced our view that consistent implementation of milestones will make a major contribution to enhancing audit quality. The programme helps our people to improve their project management skills, while the milestones functionality embedded in our audit software enables audit teams to set deadlines at a 'task level' and track progress against those deadlines. Other benefits include spreading the workload, clarity over task completion and improved on-the-job coaching through timely review and feedback.

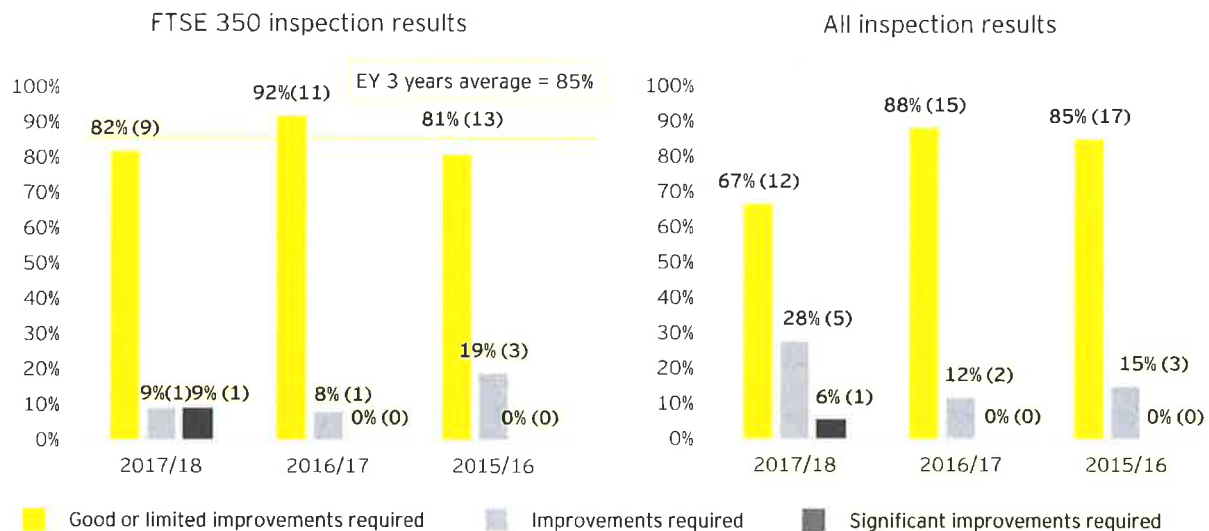
## Quality - inspecting our audits

EY UK is subject to external inspection by the FRC's Audit Quality Review Team (AQRT), the ICAEW's QAD and the US Public Company Accounting and Oversight Board (PCAOB). We comment below on the status and results of each regulator's review of our work in turn.

### Financial Reporting Council

The public inspection report rates audits in three categories as follows: 'good or limited improvements required', 'improvements required' or 'significant improvements required'.

The FRC published its report on its latest review of EY UK in June 2018:



Results presented in percentage terms; absolute number of engagements reviewed presented in brackets

Following the FRC's latest review, 67% (prior year 88%) of EY audits inspected were graded as requiring no more than limited improvements. For our FTSE 350 audits, 82% (prior year 92%) of those inspected were graded as requiring no more than limited improvements. Although our 2018 results are lower than we achieved last year, they still provide a strong base from which to achieve the FRC's target that 90% of FTSE 350 audits require no more than limited improvements by 2019, to which we remain committed.

The higher quality of audit engagements inspected by the AQRT in the last three years reflects the sustained investment made by the firm and our people since 2014. However, for the first time in three years, we had an audit graded as requiring significant improvements. We have taken this very seriously and have conducted RCA; work has been undertaken to address the issues identified.

We are disappointed by our results this year. We believe that most of the specific findings driving the decrease (set out on the following pages) are matters which we have addressed with new processes, guidance and training as set out in the FRC report and summarised on the following pages. Nevertheless we recognise that a further step change is required to deliver consistent high quality. We therefore had 'Reset and start again' as the theme for our recent Audit Quality Summits. We are enhancing our SAQ programme to ensure we address any other issues identified and keep pace with the increasing expectations of audit quality.

## Quality - inspecting our audits

In its report, the FRC noted the following initiatives as having contributed to the overall quality of audits reviewed:

- ▶ Continued development and enhancement of the firm's Audit Quality programme
- ▶ Roll out of the findings of a project led by external psychologists
- ▶ Continued enhancement of the AQST
- ▶ Focus on improving project management

The AQRT highlights the following areas of good practice:

### Individual audit reviews

- ▶ Group audit teams' oversight of, and involvement with, component auditors, particularly on some first year audits
- ▶ Use of, and co-ordination with, specialists and experts, including coordination and oversight in areas such as goodwill and investments and involvement of industry experts going beyond what the FRC normally sees in these industries
- ▶ Clear explanations of the audit judgements and conclusions in areas of significant risk capturing how management has been challenged and how the audit team has applied professional scepticism
- ▶ Use of data analytics in the audit of revenue, an area where the firm has provided further support and training to help audit teams

### EY UK audit practice procedures

- ▶ Ethics and independence procedures and the response to the revised Ethical Standards requirements
- ▶ A central independence team that reviews all acceptance and continuance assessments
- ▶ The firm's completion of a comprehensive central review to assess all current non-audit services being provided to PIE clients ahead of the transition date
- ▶ The new EY acceptance and continuance system (PACE) which operates across all service lines and includes compliance requirements of the Ethical Standards and International Ethics Standards Board for Accountants (IESBA) Ethical Standards

We carried out RCA and have implemented improvement plans on the areas that the AQRT highlights as requiring action. These are discussed below.

#### Area

Increase the extent of challenge and assessment of management's key assumptions and inputs in relation to conduct provisions in financial services entities.

#### Our response

At the time the report was issued we had already been engaging with the FRC in the area of bank audits. We developed a detailed questionnaire covering a number of aspects of these audits. Individual audit team responses were reviewed by the audit quality team who challenged whether the approach was appropriate.

For FY19 audits, the AQST and audit teams will continue to work together to confirm the appropriate level of specialist involvement in auditing loan loss provisions and conduct provisions, depending on the circumstances of each audit. We shared the FRC's emerging findings with all audit partners, EQCRs, technical and IT partners and associate partners involved in the bank audits, as well as with the wider Banking and Capital Markets audit practice. As part of the communications our conduct specialists presented on the key areas of focus in relation to conduct provisions.



## Quality - inspecting our audits

### Area

Strengthen the audit of collective loan loss provisions in financial services entities.

### Our response

We completed the actions referred to in our response on the finding on conduct provisions noted above, which also applied to the audit of collective loans provisions. The audit quality team reviewed the bank audit teams' responses to the questions around collective loss provisions in the questionnaire, following up with individual teams for clarification or further explanations and challenging the approach where appropriate. We communicated the key themes and messages relevant to collective loan loss provisions to our bank audit teams. That team received a detailed briefing from our quality leadership on the matters raised by the FRC. In addition, our AQST has audit of collective loan provisions as an area of focus for FY19 again, having received a detailed briefing from our quality leadership. Also, we will provide training to our specialists and audit teams to improve integration of the work of specialists in the audit.

### Area

Improve the audit of company pension scheme assets.

### Our response

We issued new guidance clarifying the requirements and considerations relevant to the audit of pension scheme assets, including examples to aid application of the guidance. The guidance included a revision of the approach to determining sample sizes. This was supported by training that was delivered as part of the mandatory autumn training programme in FY18.

Our AQST reviewers were specifically briefed to review the audit of pension asset balances on audits to ensure the updated guidance was applied. We will continue to focus on this through review and coaching by our AQST and through our audit training in FY19.

## Quality - inspecting our audits

<b>Area</b>	Enhance the reports from the firm's internal actuarial experts on company pension scheme liabilities.
<b>Our response</b>	<p>We issued reminders to audit teams to ensure reporting from internal actuarial experts includes evidence of appropriate challenge of assumptions and changes in assumptions. We developed an enhanced actuarial experts' standard reporting template which, was available for use in audits of December 2017 year-end financial statements.</p> <p>We incorporated in our FY18 audit training detailed reminders on the responsibilities of the auditor when using the work of an expert to avoid overreliance, which was a theme identified in our RCA.</p> <p>We will also continue to focus on this area through the review and coaching provided by our AQST to ensure that the new detailed reporting is used and to ensure all relevant considerations are being recorded.</p>
<b>Area</b>	Amend the firm's policy and guidance on hospitality in relation to allowable thresholds and implement monitoring of what is a permissible non-audit tax service.
<b>Our response</b>	We revised threshold levels for gifts and hospitality and we have amended the guidance in this area. We have amended the firm's engagement acceptance process to enable the central independence team to monitor the permissibility of non-audit tax services for UK-based EU PIE audit clients.

### Regulatory actions

Our firm is regulated and subject to professional disciplinary action in cases of potential misconduct.

As announced in the EY UK 2017 Transparency Report, the FRC's investigation into the audit of Tech Data Limited (formerly known as Computer 2000 Distribution Limited) for the year ended 31 January 2012 was concluded by way of a settlement in October 2017, the terms of which involved both the firm and the former partner receiving a reprimand, and the payment of fines of £1.8m and £59,000 respectively.

The FRC discloses on its website a list of investigations that have been publicly announced. We are positive, but not complacent, about the fact that, as at 29 October 2018, EY UK has not had fines by the FRC on audit work completed in the last five years, nor have any of our partners been sanctioned in respect of that period.

## Quality - inspecting our audits

### FRC inspections of public sector appointments

The Public Sector Audit Appointments Limited (PSAA) commissions inspections of firms conducting local audits by the FRC's AQRT. The AQRT inspected three financial statements opinions and one Value For Money (VFM) arrangement conclusion file from EY's 2016/17 PSAA work, and provided an updated commentary on the applicability of firm-wide procedures to our audits. Having considered the review points raised by the AQRT, the PSAA assessed one of the financial statements audits as 'good', one as 'acceptable with limited improvements required', and one as 'significant improvements required'. The VFM arrangements conclusion work was assessed as 'good'.

Our own internal review had already identified that significant improvements were required in the audit subsequently reviewed and graded as such by the AQRT. We carried out RCA on this audit and agreed actions with the audit team, and these actions were monitored through the next audit. The findings were used to inform wider training, which has been delivered.

### FRC thematic reviews

The FRC supplements its routine monitoring programme with a series of thematic reviews of certain aspects of corporate reports and audits where there is particular shareholder interest and scope for improvement and learning from good practice.

The FRC issued a thematic review report on Audit Materiality in December 2017 and one on Audit Culture in May 2018. We analysed these reports and have considered both good practice and areas for improvement. We were pleased to recognise some of our own areas of good practice in these thematic reviews. We have incorporated developments into our FY19 action plan for the SAQ programme for areas where the thematic reviews helped us identify areas for improvement.

We are aware that the following thematic reviews will be reported on or completed in the coming year:

- ▶ Transparency Reporting: A comparative analysis of transparency reports of firms with PIE audits
- ▶ Audit Quality Indicators (AQIs): An assessment of the development and use of AQIs by UK audit firms, which will draw heavily on international best practice.

The FRC will also complete its review of 'The Auditors Work on the Front Half of the Annual Report'. This review, which was included in the 2017/18 thematic inspection programme, is being undertaken over an extended period, to enable the impact of recent relevant changes to auditing standards to be fully assessed.

We will review the reports once released and consider any actions we should take. We find these thematic reports helpful in identifying areas of good practice as well as opportunities to improve.

### Financial services sector

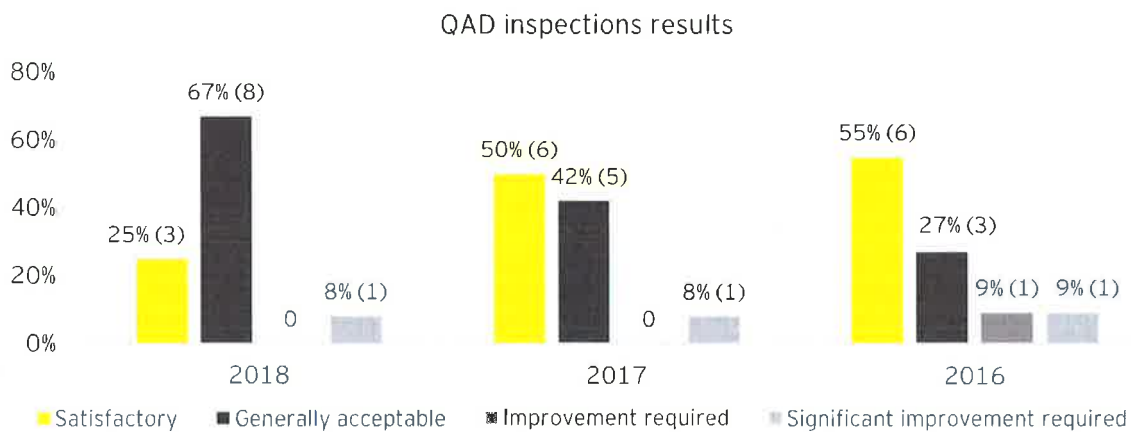
The FRC and the financial services regulators, the Financial Conduct Authority and Prudential Regulation Authority (PRA), are showing particular interest in audit quality in the financial services sector. We maintain an active dialogue and relationship with all three regulators. This is particularly important given their interest in major new accounting standards such as IFRS 9, as well as the specific requirement for written reporting to the PRA on some of our banking audits.

## Quality - inspecting our audits

### ICAEW's Quality Assurance Department (QAD) findings

The QAD conducts monitoring visits to all firms registered for audit with the ICAEW. Their monitoring visits contribute to the ICAEW's objective of maintaining the highest standards among member firms. EY is in the population of firms that the QAD visits on an annual basis, but for which the FRC has lead regulatory responsibility. The last QAD inspection took place in 2017 and its report was issued in the spring of 2018. The QAD noted: 'Audit work was of a good standard in most areas and largely comparable to the quality of audit work we reviewed at our last visit.'

The results of the QAD inspections are set out below:



Results presented in percentage terms; absolute number of engagements reviewed presented in brackets

Eleven of the 12 files subject to standard-scope review were either satisfactory or generally acceptable. However, one engagement was rated 'significant improvement required'. The finding that drove this conclusion identified that the audit team had not adequately challenged the basis for continuing to recognise an intangible fixed asset, which should have been fully amortised in a prior year.

The QAD also undertook a follow-up review of one of the engagements it had reviewed in the previous year, concluding that the engagement was satisfactory.

RCA has been completed on the one engagement rated 'as significant improvements required.' In addition the RCA team is looking at a further sample of files considered 'generally acceptable' to identify what further lessons can be learned.

### Public Company Accounting Oversight Board (PCAOB)

EY UK is inspected every three years by the PCAOB and an inspection commenced during May 2017. The PCAOB chose three engagements to review, completed its field work and we are awaiting the final findings report. In addition to the public report, the PCAOB also provides a private report to the firm setting out any deficiencies in the wider quality control processes operated. This report is only made public if the PCAOB believes that these deficiencies have not been appropriately addressed in the year following the issuing of the report.

Should the report be made public, we will address the relevant findings in next year's transparency report.

## Quality - inspecting our audits

### Our internal Audit Quality Review (AQR) process

Each year we undertake a review of a sample of our audit engagements through our internal AQR process. The review is conducted in the summer months and inspects audits performed in the previous year. So audits reviewed in the summer of 2018 are primarily from audits of December 2017 accounts, although we also seek to design our sample to cover a range of audits, not just those with December year ends.

The review is performed by EY UK professionals from offices other than those in which the audit in question was undertaken, as well as a significant proportion of reviewers drawn from other EY member firms. The reviews are subject to oversight from senior partners of EY member firms, which further supports the rigour, integrity and consistency of the process.

The review process is intended to cover every Responsible Individual (RI) – partners and associate partners authorised to sign audit reports – at least every three years, and every FTSE 350 audit every six years. Other audits are selected for review to cover a cross-section of the audit practice. However, the selection is weighted towards those engagements with higher risk factors. In the current year we reviewed 108 engagements.

During 2016 we discussed with the FRC the results of its thematic review of audit quality monitoring. In the light of those discussions, we continued to seek to improve the quality of the AQR process in FY18 through:

- ▶ Providing further guidance and training to reviewers on how points identified in the reviews should be followed up, what constitutes appropriate mitigation of a finding and how that should be verified, to ensure that final conclusions appropriately reflect and are supported by findings
- ▶ Further pilots of focused reviews on 31 engagements during the FY18 AQR cycle (16 in 2017 and four in 2016)
- ▶ Reviewing a sample of UK components when group audits are reviewed

We continue to assess the effectiveness of our process and will look to make further improvements as appropriate. The FRC is currently performing a review of the AQR process and we will look to implement any further recommendations that are made.

We evaluate the results of our review on a three-point scale:

1 = **no or minor findings**

2 = **findings that were more than minor but less than material**

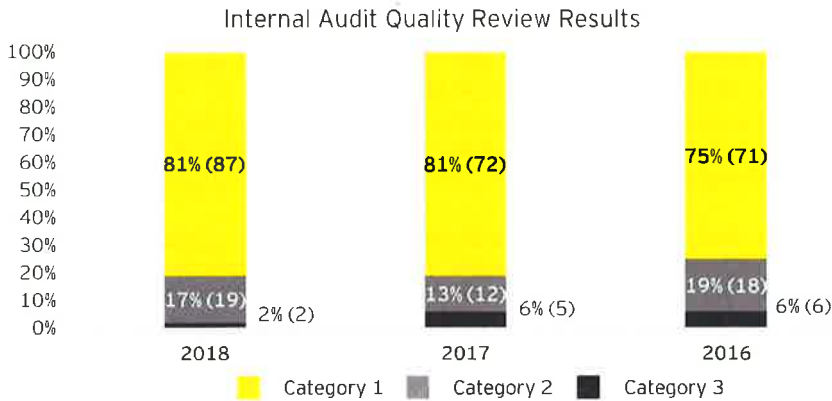
3 = **material findings**

For audits with material findings arising from our internal reviews, EY UK develops and implements a remedial action plan. A quality improvement plan is also developed for EY UK, which draws on RCA that we complete. We communicate lessons learned from the reviews to our audit practice and include them in future training. The results are also built into the work of our SAQ programme, discussed previously. AQR results play an important part in our assessment of partner and staff quality, which is in turn a key input to colleagues' promotions and rewards, as described on page 21.

As well as reviewing individual audit engagements, our AQR process also involves a review of our cross-firm processes and controls in a number of areas: client acceptance and continuance; consultations and pre-issuance reviews; people processes (recruitment, assignment of staff, learning and performance evaluation); and compliance with the ICAEW Audit Regulations. Changes in our processes, procedures or systems are considered in the light of findings from this review.

## Quality - inspecting our audits

Over the last three years, we reviewed 47 % of our RIs in FY18, 37% of our RIs in FY17 and 42% in FY16 with the following results:

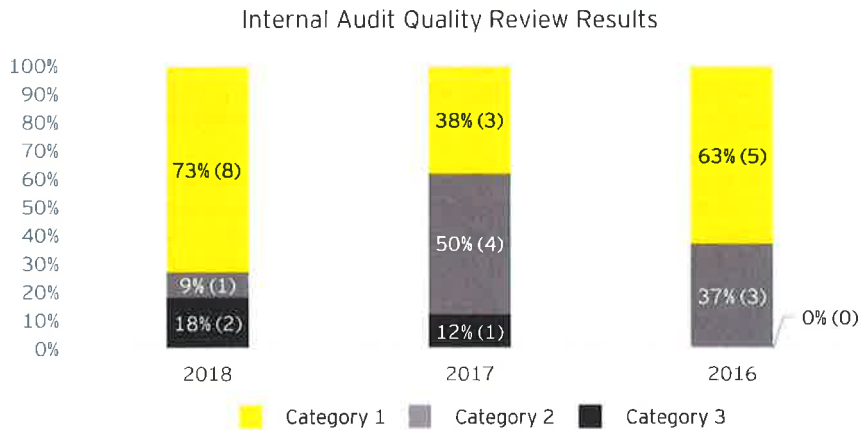


Results presented in percentage terms; absolute number of engagements reviewed presented in brackets

The percentage of engagements rated with no or minor findings has remained consistent year on year, but we continue to target a further increase in future years. We are pleased with the reduction in category 3-rated engagements identified in the FY18 AQR season. However we are undertaking RCA of the two engagements rated as category 3 and a sample of other audits reviewed to identify actions we can take to improve audit quality across our practice.

In addition to the corporate AQR process, we also undertake reviews of our public sector audit engagements performed under either the PSAA or Audit Scotland regimes. These reviews are undertaken using the same process as the corporate AQR, but were performed in the winter of 2017/2018 for audit clients with year-ends primarily in spring 2017.

The results are provided to PSAA and included in its assessment of the quality of our work in this sector. Audit Scotland requires one engagement to be reviewed each year and the result is reported to the organisation as part of its regime requirements. The results of all recent reviews are as follows:



Results presented in percentage terms; absolute number of engagements reviewed presented in brackets

We are pleased with the substantial increase in the proportion of category 1-rated engagements. However, we are disappointed that two (18%) of the engagements reviewed were rated 3. One of these was subsequently reviewed by the FRC as previously noted. A number of actions have been taken on both the specific engagements and across the public sector group to address the issues identified. Overall, although the internal review process has indicated a continuing high level of engagements meeting our audit quality expectations, our audit quality ambition is to reduce further the number of engagements rated 2 or 3 as we learn lessons from our RCA. We investigate the root causes of the findings identified by our AQR process; the FY18 AQR results will be included in our EY UK 2019 Transparency Report.

## Quality - RCA

### Root Cause Analysis (RCA)

Detailed RCA of our internal and external audit inspection findings continues to be an important part of our SAQ programme. RCA is carried out on audits where key findings have been identified, as well as on engagements deemed as being of a particularly high standard. We also carry out RCA on selected prior year adjustments and for non-personal independence breaches.

The RCA is performed by an experienced team of audit professionals using the following approach and methodology for all investigations:

- ▶ Tracing the findings that gave rise to any finding back to the relevant activity and gathering information on what happened
- ▶ Performing desktop analysis of findings and the related audit documentation
- ▶ Carrying out in-depth interviews with key members of the audit team, including the partner, senior manager, the Engagement Quality Control Review partner, members of the wider audit team and specialists (where relevant)
- ▶ Aggregating engagement-level root causes and identifying common themes

### Number of inspections subject to RCA



Internal inspections



External inspections



Other\*

- includes prior year audit adjustments, office wide reviews and non-personal independence breaches

### Case Study: RCA - What leads to high-quality audits?

As part of our RCA we investigated what drove the success of a regional office that obtained the highest possible rating for all recent internal audit quality reviews. We identified a strong audit quality culture supported by a number of office-level initiatives:

- ▶ Well embedded EY Expert Model helped clarify the expectations of the audit
- ▶ Involvement of partners and associate partners in the regular Assurance employee meetings
- ▶ Personal development days when all auditors meet to discuss performance and developmental feedback, and attend small training sessions on current, relevant audit and accounting matters
- ▶ Ad hoc 20-minute interactive web training sessions called 'bite size quality sessions'
- ▶ 'Pass the baton' - an initiative where colleagues explain the expectations of moving up to the next career level to the peer group immediately below them

These initiatives combined to improve the engagement and retention of team members, supporting the delivery of high-quality audits.

## Quality - RCA

The findings from RCA are reported to internal and external stakeholders, including the AQB, FRC and ICAEW. An action plan is developed in response to the RCA findings and monitored by the AQB.

The findings reported following the 2017/18 RCA were:

Factors key to good quality results	Root causes of weaker quality results
Implementation of the EY Expert Model	Audit work and basis for related conclusions not explained adequately on the file
A high degree of partner involvement	Overreliance on work of specialists supporting the engagement team
Support provided by our AQST	Insufficient application of professional scepticism
A more consistent use of new technology and enablers	In the case of pension scheme assets, insufficient focus on an area that was not a significant risk



## Quality - skills and specialists

### Specialist involvement

On our audit engagements we work closely with our specialists from other service lines and we believe that by leveraging their expertise, we enhance our ability to deliver high-quality audits.

Specialists' work can make up a quarter of an audit. For instance, on one large bank audit we involved specialists such as: IT, Tax, Financial Accounting, Risk (including credit, conduct, capital, regulations), Valuation and Business Modelling (forecasts and pensions), Actuaries, Data Analytics, Fraud (including Anti-Money Laundering).

All our specialists are subject to a mandatory audit training curriculum rolled out annually. We are committed to continuing to ensure effective integration of specialists on our audits. During FY18 and in the summer of 2018 we held training for auditors on coordination with and reliance on specialists. Such training included a classroom session and a webcast for the audit practice and reemphasised the importance of exercising professional scepticism when relying on specialists' work. Furthermore, specialists facilitated training sessions for auditors on certain topics, such as conduct provisions.

### Group audits

Our audit methodology sets out clear guidance on how we conduct group audits. The group engagement partner is responsible for the direction, supervision and performance of the group audit engagement. We have a range of programmes, templates and guidance that have been designed to help execute these responsibilities and document how we have done so. This covers using both firms within our EY network or other audit firms. We are pleased that the FRC has included within its public report, in both of the last two years, areas of good practice noted in the work reviewed in relation to group audit team oversight.

### Training

Our investment in training continues to support our audit quality ambitions and once again this year we made a significant investment in our training curriculum. All partners and staff are set minimum continuing professional development (CPD) requirements (discussed further on page 108) and those individuals involved in audits regulated by the PCAOB undertake specific training covering the relevant audit and accounting standards. As discussed further below, our people believe our training programme is enabling them to deliver high-quality audits. In the last three calendar years, we have delivered the following mandatory structured training hours, principally relating to audit and financial reporting:

	FY18	FY17	FY16
Senior 2	95	83	76
Senior 3	50	56	69
Manager	54	66	72
Senior manager	41	47	48
Director/Partner	41	47	48

The training curricula are designed each year to reflect the current needs of the business.

The increase in training hours at Senior 2 includes an additional day of training on new audit technologies and a shift in training hours from Senior 3 to Senior 2.

Consequently, the decrease at Senior 3 is due to a realignment of core curriculum learning across the Senior ranks so this year group now has fewer mandated learning hours.

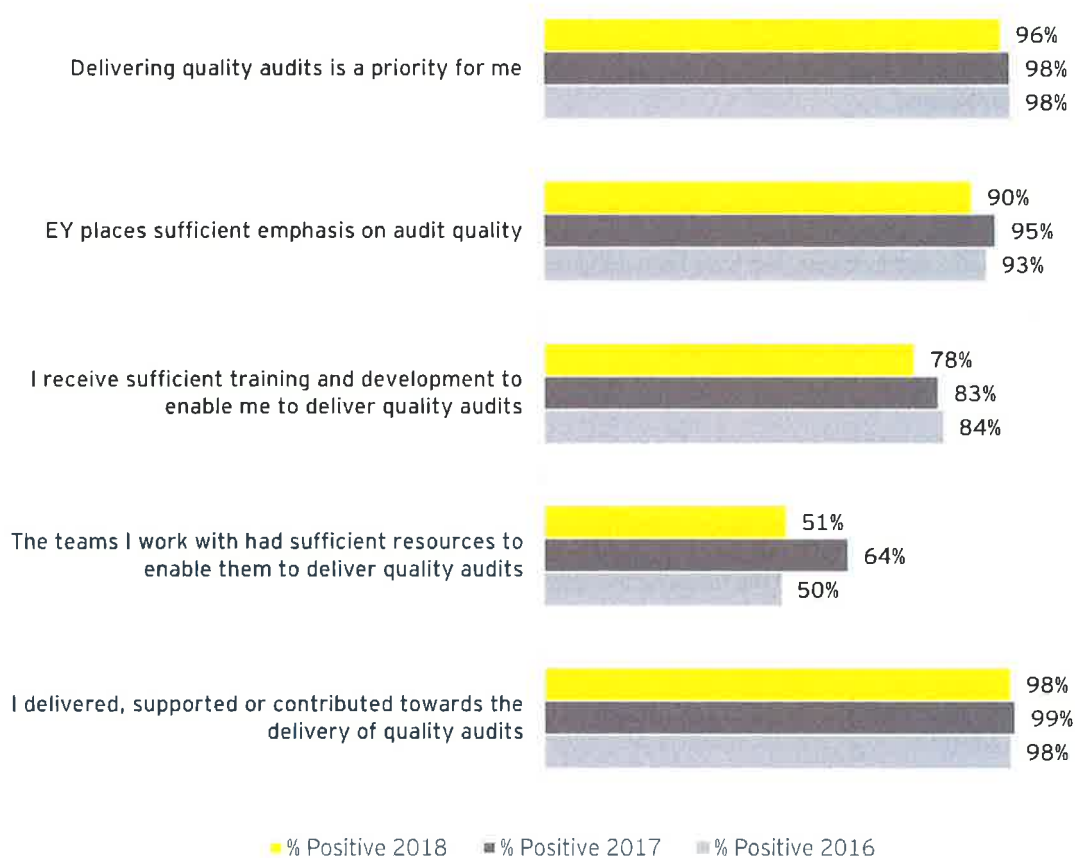
The decrease at Manager, Senior Manager and Director/Partner is largely due to a reduced need for training on audit tools that are now fully embedded (e.g., our audit firm software - EY Canvas) and fewer updates to accounting standards, not already covered in previous training.

## Quality – our people’s view

### What our people tell us

Our success in meeting our stated audit quality ambitions is dependent on the individuals delivering our audit engagements. It is therefore critical that we listen to our people and provide the support they need to achieve sustainable audit quality. We conduct an annual Audit Quality Survey, which focuses on audit quality and provides valuable feedback from our audit engagement teams.

The relevant audit quality indicators (AQIs) from the survey are as follows:



We are pleased that once again a very large majority of our people report that delivering quality audits is a priority for them, that EY places sufficient emphasis on audit quality and that they delivered or contributed to delivering high-quality audits during FY18.

In current year we included the question, 'I understand my role as an auditor in providing independent assurance, supporting strong capital markets and protecting the public interest'. We are very pleased that our annual audit quality survey results show a **97%** positive response to this question. We believe this is a reflection of our strong audit culture, which is embedded in everything we do, and the increasing focus we have been placing on purpose and the societal importance of the role we perform.

## Quality - our people's view

We are disappointed to see a decrease in positive responses to the question asking our people if their teams had sufficient resources to enable them to deliver those quality audits.

We have seen improvements on this question in both of the last two years. We have analysed this response and identified some variation in the pressures felt at different levels and in some geographical areas. Some offices have felt more pressure due to resourcing constraints, whether due to higher than expected attrition, growth or challenges in the recruitment market. However, the patterns identified have confirmed that we must do more targeted work.

In response to this matter, the priorities of the SAQ programme will include monitoring the resourcing position at a disaggregated level, monthly reporting to the AQB, and determining ways of sharing resources to address any areas of need. We will also continue to focus on providing audit teams with access to tools such as robots and data analytics to help them deliver high-quality audits efficiently. We are continuing to implement the EY Expert Model, enhancing the AQST and focusing further on project management to help teams deliver their audits.

We noted a slight decline in positive responses to the sufficiency of training and development, although the result is still at a high level. We have continued to invest in training and development through dedicated Audit Quality Summits and targeted summer training, to provide our people the skills they need to deliver quality audits. Increasingly we are training people on new tools and technologies. As people switch to using analytics and robots, the feedback they give is that they need more practical hands-on training in order to feel comfortable. We believe this may have impacted the responses received. As we carry out office visits and focus groups this year, we will talk to people to understand if there is anything more we need to do in this area.

# Technology in today's audit

## Developments to our audit platform

This year saw the introduction of the client portal as the latest add-on feature to our global audit platform EY Canvas. This allows engagement teams to exchange information securely, monitor requests and manage tasks in an efficient manner directly with our clients.

Since its introduction we have enrolled over **740 EY UK clients** onto the EY Canvas Client Portal, covering almost **1,500** individual engagements.

Our client response has been overwhelmingly positive. From the outset, clients recognised the benefits of the EY Canvas Client Portal, including the enhanced data security it provides by automatically uploading their information onto the platform, creating confidence that their data has been safely delivered directly to EY engagement teams. The greater efficiency of exchanging requests and information in this way has saved time for all those involved. Furthermore, the new on-demand visibility of the status of audit requests has improved collaboration and is driving fast adoption of the client portal.

## Data analytics

Our use of data analytics in the audit continues to expand. Our approach is to embed the use of data analytics procedures into the audit across our client's business cycle leveraging our investments in the EY Helix technologies and our data analytic specialists along with structured guidance to ensure consistency in application. We are pleased that the FRC has noted our use of data analytics in the audit of revenue as an example of good practice.

We continue to support our people in appropriate use of data analytics through training and coaching to enable them to extract value from this approach both in terms of high-quality audit evidence and valuable client insight.

The number of audits using data analytics doubled in the last year. In the coming year, we will continue to focus on the 'digital audit', to further embed the use of data analytics and other technologies throughout the audit. This will be supported with appropriate training for our people.

## Case Study: Revenue data analytics

In its 2017/2018 inspection report, the FRC noted our use of revenue data analytics and the informative audit committee reporting in this area as good practice.

By analysing journal entries posted throughout the year, our standard revenue analytics programme helps teams understand the correlation between different types of transactions and revenue, receivables and cash collections to validate expected trends or identify unexpected trends for further investigation.

This and other analyser tools enable audit teams to document the background, risks and procedures performed and conclusions, while describing the detailed analytics performed in a clear way that is easy for a reviewer to understand. Teams are enhancing audit committee reporting with insights from the data analytics that merit clients' attention.

The scope of data analytics we are now applying extends beyond a sole focus on financial data. Through the convergence of our Assurance disciplines, the analytical techniques developed in our Forensics & Integrity Services are now being used on our audit engagements, enabling our professionals to consider a broader range of non-financial risks in their day-to-day work.

As an example, when scoping our financial audits, the EY Risk Scan analytics triangulate leading indicators of risk (including fraud, forensics and culture) by integrating data from a multitude of internal and external sources with traditional financial data. This provides our teams with the benefit of greater insight into risk factors when deciding how to scope, plan and allocate resources for their audit engagements.

## Technology in today's audit

### Robotic Process Automation (RPA)

This year saw the deployment of Robotic Process Automation (RPA) into our Assurance business for specific standardised processes. Audit teams are now accustomed to using RPA 'bots' to help with a number of these processes, ranging from simple administrative tasks through to more complex activities such as analysing bank statements and selecting audit samples.

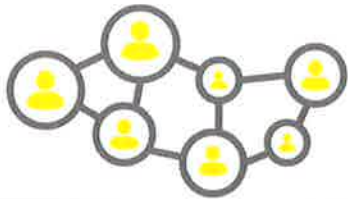
Our focus now is on embedding robotics into our analytics-led audit approach, using bots to execute the routine parts of the process (such as work paper production, sample selection and client requests etc.). This frees up auditor time, allowing our practitioners to focus more effectively on areas where judgement is required (such as understanding the outliers, validating the process and corroborating the picture with third-party evidence). This is helping to deliver higher consistency and quality, improved efficiency and more fulfilling careers for our people.

### Digital Degree Apprenticeships

EY UK is investing in Digital Degree Apprenticeships to increase our pipeline of talent capable of responding to our clients' digital and technology needs across core parts of our business. We understand the necessity of investing now in skills for the future.

The apprenticeship combines full-time paid work and part-time university study to offer candidates the opportunity to gain a full Bachelor's or Master's degree, while benefiting from practical on-the-job training.

Apprentices will spend 80% of their time on the job within their service line contributing to client engagements, and 20% of their time away from client work so they can study towards the Digital Degree. Up to 10% of our student intake will be recruited under this scheme to provide a source of skilled, digitally literate talent.



In FY19 we will have **13 digital apprentices** joining Assurance, and we expect to see this number double in the following year and continue to grow significantly.

Over time we will see their unique skillset continue to grow and develop, helping us in our assurance transformation activities.

## The future of assurance

### Investing for the future

Across EY globally there are plans for the investment of US\$1bn in new technology solutions, client services, innovation and the EY ecosystem over the next two financial years, commencing from July 2018. This move is part of an ongoing strategy to provide clients and people with innovative offerings using the latest disruptive technologies.

The new US\$1bn funding is in addition to the existing, significant annual technology investment. The investment will be used to create new technology-based services and solutions in areas such as financial services, cyber, risk management, managed services and software services, as well as digital tax and audit services.

Mark Weinberger, EY Global Chairman and CEO, says:

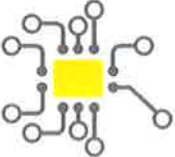
“In this transformative age, businesses and governments are under significant pressure to not only keep pace, but get ahead of the vast disruption and technological change. We see enormous opportunities in helping clients address these challenges and stay ahead of the technology curve. With this investment and expanded technology leadership team, EY will help businesses navigate industry disruption to realise their growth potential.”

### Big Data and AI

Global investment in and deployment of emerging technologies such as RPA and blockchain continue to disrupt entire industries, creating new markets and business models. Big Data is the backbone of this disruption. Driven by the convergence of social, mobile, cloud and the Internet of Things, the volume of data is growing exponentially.

EY UK is now actively exploiting Big Data by gathering and aggregating vast amounts of internal and external data points as part of the delivery of our Assurance services. At the same time we are starting to assist our clients in their efforts to manage the potential risks of Big Data, such as loss of privacy and cybersecurity.

The number of AI tools actively used on our Assurance engagements, including audit, is increasing.



Last year we audited **500 client financial models** (built in Excel) using our new AI-based system, which uses **384 data points** to assess each cell for potential errors.

A number of other AI-enabled tools are also on the path to formal certification for use on our audit engagements. Deploying AI-enabled tools reduces the risk of human error, increases the consistency of execution of work and frees people up to focus on areas of higher risk and judgement, leading to improved audit quality.

# The future of assurance

## Case Study: British Science Association Huxley Summit

The Huxley Summit is a high profile thought leadership event run by the British Science Association. EY UK sponsored the 2017 Huxley Summit and supported the debate on how organisations can build trust through the way they deal with data and how greater transparency will help fuel more innovation. EY UK carried out qualitative research and quantitative analysis on data ethics and governance. In our efforts to fulfil the EY purpose of Building a Better Working World, we set out to understand whether the issues being highlighted by the academic and science communities are resonating and being reflected in the actions of corporates.

Our research included an independent survey of approximately 200 leading companies, one-to-one interviews with business leaders and an examination of prior EY research on the topic to supplement the survey results. Our findings covered:

- ▶ attitudes to trust
- ▶ the drive for data value and opportunity
- ▶ the role of regulation
- ▶ what can be done to balance fair use, trust and acceptance with commercial gain

In a world that is increasingly driven by data and technology, reputations are harder to protect and societal trust in business is becoming harder to maintain. We hope our research can help the capital markets and wider society work together to address an issue that could potentially damage trust in the market.

In recognition of our contribution to advancing the public debate on trust, EY UK has again been invited to be the keynote speaker at the Huxley Summit 2018 on the topic of Artificial Intelligence.

## Measuring the immeasurable

Societal trust in business is arguably at an all-time low and, in a world increasingly driven by data and technology, reputations and brands are harder to protect. In striving to fulfil EY's purpose of Building a Better Working World, we are committed to finding solutions to address issues that potentially damage trust.

Together with the Coalition for Inclusive Capitalism, we are working with more than 30 global companies across the entire investment value chain to redefine how we measure and report on corporate value, encouraging companies to measure and report on long-term value creation.

We are also focusing our attention on cultural assessments and measurement. Over the past year we have made significant strides in further embedding cultural assessments into our suite of non-audit Assurance services. This has enhanced the quality and scope of the oversight we provide to our clients, extending it into areas once considered so intangible as to be immeasurable. Our work in this area reinforces our understanding of the role of people at the heart of business, and consequently the importance of including an objective and evidence-based measurement of culture as part of the Assurance service offering.

Other initiatives include the EY Trust Analytics platform, enabled by Big Data and AI. We are starting to provide clients with a consistent and objective measure of the level of trust they have with external stakeholders. This can be used, for example, as an indicator of corporate performance by helping to forecast potential customer churn or revenue loss.

## The future of assurance

### EY Badges

In FY18 EY Badges was launched, a programme that helps our people earn digital credentials by developing future-focused skills and gain experiences that can shape their career. We consider this investment vitally important, given the rapidly changing world we work in, and it demonstrates our continued commitment to supporting the development of our people. EY Badges also help our people to differentiate themselves in the market. We are the first professional services organisation to offer digital badges globally.

There are four levels of badge distinction (bronze, silver, gold and platinum), with defined criteria to be met in learning, experiences and contributions to earn each badge.



The badges are classified under the overarching domains of Data Analytics and Leading Technologies and cover areas such as information strategy, data architecture, automation and blockchain. Our people can celebrate their earned badges online, through social media, and on their personal profile or CV to showcase their newly acquired skills.

### Case Study: Data Ninjas

The Data Ninjas Programme was developed as a learning and development scheme designed to help colleagues learn more about new technologies and the skills required to manage new ways of working with data.

The scheme provides a common purpose and structure for learning these new skills for a wide group of colleagues. The sense of community it has created has enabled colleagues to learn from each other and showcase their work to an audience who can provide feedback in a safe and constructive environment. This has not only enhanced their own personal development, it has also enabled them to present findings to clients in a more impactful and meaningful way.



## Stakeholder engagement

EY UK places a high degree of focus on proactive stakeholder engagement. With topics such as audit quality, competition and choice, and the perception of conflicts of interest at the top of the agenda, it is vital that we at EY UK are able to have an open and frank discussion with stakeholders. We believe this not only helps to increase trust and transparency, but also offers an important opportunity to understand their concerns and reach closer alignment in expectations. In turn this helps us to improve our accountability and decision making, and better fulfil our public interest responsibilities.

### Investors

Having a strong relationship with investors is important to EY UK, as investors are the ultimate audit client. This year our stakeholder engagement programme also focused on widening our investor audience to include representatives from across the investment chain. Through our biannual Dialogue with Investors event, the INEs and senior EY leaders hosted a dinner discussion and a breakfast roundtable. In total, EY UK successfully welcomed over 35 investors representing £5.28 trillion in assets under management. The attendees, who ranged from institutional investors to charities, came and spoke to our INEs about the issues that most concern them. The topics discussed included corporate governance, corporate reporting, and the management of conflicts of interest and independence. Our biannual Dialogue with Investors event also helps to equip investors with the information they need to engage with company boards on reporting and auditing matters.

Given that the Audit Firm Governance Code (AFGC) is principally for investors, we at EY UK are constantly looking for innovative ways to build and broaden a stronger relationship with the investor community. In FY18 as a new addition to our stakeholder engagement programme, EY UK also engaged with investors through podcast interviews, where the investors talked about key regulatory and public policy topics that are of keen interest to them. Topics covered included Brexit, modern slavery, financial reporting and gender pay gap reporting.

EY UK also holds a strategic collaboration with the Investor Forum, an investor-led organisation whose members are asset managers or owners, including pension funds, life insurers and sovereign wealth funds.

### Case Study: Investor Forum

On 25 April 2018, the Investor Forum convened 40 members of the investment community to discuss the topic of collective engagement. EY UK joined a panel alongside investors to talk about engagement and share insights on the Embankment Project, a project we continue to work on through our partnership with the Coalition for Inclusive Capitalism which seeks to develop a new framework to measure how businesses can deliver value over the long term.



THE INVESTOR FORUM

During the discussion investors highlighted that companies could do much more to disclose non-financial information in a way that investors can find what they need, and that focuses on what's important to the end users reading their reports, as it is often the case that sustainability information is published at a different time to financial results. Insights like this demonstrate the value of investor engagement. Companies need to engage with investors, in order to understand firstly what information is important to them and secondly how best they can communicate it. The discussion also highlighted that companies should consider how an evolution in the focus of client mandates and a much broader consideration of value are beginning to impact the nature of investment decisions; it is these considerations that motivate the Embankment Project.

## Stakeholder engagement

In addition to engagement with Institutional Investors, EY UK also engages constructively with board members on current trends and issues facing UK business. This year, we have also sought to further develop the platform to which we can facilitate peer to peer engagement.

### EY UK Centre for Board Matters (EY UK CBM)

We refreshed the EY Independent Director programme in the second half of FY18 and it has been re-branded as the EY UK Centre for Board Matters (UK CBM). With this re-brand comes a much greater focus on engaging FTSE 350 non-executive directors and audit committee members by delivering timely insights on the current issues and trends UK businesses face. Each quarter we focus on a theme with a range of on-demand content and a series of invitation-only events. The main focus for the programme during the latter half of FY18 was to inform members of the new programme structure and to initiate the webcast and Board Matters podcast series. Members from our Non-Executive Director (NED) community can access this theme-based content on our website - <http://www.ey.com/uk/boardmatters>.

We have also recorded a webcast on General Data Protection Regulation with SAP, an EY alliance partner, which is continuing to inform audiences of the implications now that the regulation is law.

Our annual summer reception took place on 5 June 2018 at Tate Modern, where we hosted 197 delegates. Our annual winter reception was hosted by ITV's Political Editor, Robert Peston, who gave guests a unique insight into the changing political landscape. Following another successful event hosted in October, Are you ready for the robot revolution?, Richard Anning of the ICAEW was inspired to write a blog on the topic, attracting over 2,000 views by October 2018. The UK CBM has an ongoing partnership with Criticaleye, the peer-to-peer board community, and we are looking forward to building on the success of 2017's NED Retreat, which we will be sponsoring again in 2018.

Total number of  
NEDs in attendance  
at FY18 events:

**434**

During FY19 we will work to develop the initial success of the UK CBM and engage FTSE 350 NEDs by creating unique and relevant content.

### Audit committees

Globally, EY collaborates with the consultancy firm Tapestry Networks to engage with the chairs of audit committees. Members of Tapestry's audit committee network are all senior leaders from more than 300 public companies and a wide variety of public institutions. EY UK will continue to engage with this network to help ensure we stay up to date with the key topics and themes of interest to audit committee chairs.

### Case Study: European Audit Committee Leadership Summit

In April 2018, members of the Audit Committee Leadership Network in North America and the European Audit Committee Leadership Network met in London for the 13th annual Audit Committee Leadership Summit, where EY presented. During the summit, members discussed lessons learned from cyber breach responses, digital transformation and strategy, and audit committee effectiveness.

For Publication

Bedfordshire Fire and Rescue Authority  
Audit and Standards Committee  
14 March 2019  
Item No. 8

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**REPORT AUTHOR:** CHIEF FIRE OFFICER

**SUBJECT:** INTERNAL AUDIT PROGRESS REPORT 2018/19

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For further information on this report contact: Nicky Upton  
Democratic and Regulatory Services Supervisor  
Tel No: 01234 845149

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Background Papers: RSM Strategy for Internal Audit  
Bedfordshire Fire Authority 2018/19 to 2020/21

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Implications (tick ✓):

LEGAL		✓	FINANCIAL	
HUMAN RESOURCES			EQUALITY IMPACT	
ENVIRONMENTAL			POLICY	✓
CORPORATE RISK	Known	✓	OTHER (please specify)	
	New		CORE BRIEF	

*Any implications affecting this report are noted at the end of the report.*

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**PURPOSE:**

To receive and consider a report on progress made against the internal audit plan for 2018/19.

**RECOMMENDATION:**

That the submitted report be received.

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1. Introduction

1.1 An internal audit plan for 2018/19 was agreed by this Committee at its meeting on 28 March 2018.

1.2 A report by RSM on progress made against the internal audit plan for 2018/19 is appended for Members' consideration.

**PAUL FULLER CBE QFSM MStJ DL  
CHIEF FIRE OFFICER**



# BEDFORDSHIRE FIRE & RESCUE AUTHORITY

## Internal Audit Progress Report

Audit and Standards Committee

14 March 2019

This report is solely for the use of the persons to whom it is addressed.  
To the fullest extent permitted by law, RSM Risk Assurance Services LLP  
will accept no responsibility or liability in respect of this report to any other party.





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As a practising member firm of the Institute of Chartered Accountants in England and Wales (ICAEW), we are subject to its ethical and other professional requirements which are detailed at <http://www.icaew.com/en/members/regulations-standards-and-guidance>.

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Management actions for improvements should be assessed by you for their full impact before they are implemented. This report, or our work, should not be taken as a substitute for management’s responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

This report is solely for the use of the persons to whom it is addressed and for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person’s reliance on representations in this report.

This report is released to you on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

RSM Risk Assurance Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB

# 1 PROGRESS UPDATE

The internal audit plan for 2018/19 was approved by the Audit & Standards Committee in March 2018. Below provides a summary update on progress against that plan and summarises the results of our work to date.

## Audit Assignments completed since the last Audit & Standards Committee

We have finalised two report since the previous meeting.

Assignments	Date Planned	Opinion issued	Actions agreed		
			H	M	L
Use of Risk Information	Final Report	Substantial Assurance	0	1	2
Governance	Draft Report – Issued 2 August 2018, revised draft issued 8 October 2018. <i>Draft report and responses to be discussed at the Authority meeting in March prior to finalisation.</i>				
<b>Key Financial Controls</b>	<b>Final Report</b>	<b>Substantial Assurance</b>	<b>0</b>	<b>0</b>	<b>1</b>
<b>Risk Management</b>	<b>Final Report</b>	<b>Reasonable Assurance</b>	<b>0</b>	<b>4</b>	<b>4</b>
Stock Control (previously) Asset Management	25 February 2019				
Follow Up	5 March 2019				
Cyber Security	Postponed to 2019/20 at the request of management, replacement in discussion with management.				

## 2 OTHER MATTERS

### 2.1 Head of Internal Audit Opinion

The Audit and Standards Committee should note that the assurances given in our audit assignments are included within our Annual Assurance report. The Committee should note that any negative assurance opinions will need to be noted in the annual report and may result in a qualified or negative annual opinion.

We have not issued any negative opinions to date in relation to 2018/19 and therefore anticipate issuing a positive opinion at the year end (subject to the remaining audits).

### 2.2 Changes to audit plan

Since the last Committee we have agreed the following changes:

1. Asset Management has been replaced with Stock Management at the request of management.
2. Cyber Security has been delayed at the request of management due to the current work in this area. This has been included in the Internal Audit Strategy for 2019/20 as per our separate agenda item.

### 2.3 Information and briefings

There have been no further briefings issued since our last Committee.



## FOR FURTHER INFORMATION CONTACT

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**Email address:** [suzanne.rowlett@rsmuk.com](mailto:suzanne.rowlett@rsmuk.com)

**Telephone number:** 07720 508148

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For Publication

Bedfordshire Fire and Rescue Authority  
Audit and Standards Committee  
14 March 2019  
Item No. 9

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**REPORT AUTHOR:** CHIEF FIRE OFFICER  
**SUBJECT:** INTERNAL AUDIT STRATEGY 2019/20

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For further information on this report contact: Karen Daniels  
Service Assurance Manager  
Tel No: 01234 845013

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Background Papers: Internal Audit Strategy 2018/19 to 2020/2021

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Implications (tick ✓):

LEGAL		✓	FINANCIAL		✓
HUMAN RESOURCES			EQUALITY IMPACT		
ENVIRONMENTAL			POLICY		
CORPORATE RISK	Known		OTHER (please specify)		
	New		CORE BRIEF		

*Any implications affecting this report are noted at the end of the report.*

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**PURPOSE:**

To receive and consider the three year Internal Audit Strategy for 2019/20 to 2021/2022.

**RECOMMENDATION:**

That the submitted report be considered and the audit plan for 2019/20 be approved.

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1. Introduction

A report by RSM on the approach to developing the Fire and Rescue Authority's internal audit strategy for 2019/20 to 2021/2022, and a plan for 2019/20, is appended for Members' consideration.

**PAUL FULLER CBE QFSM MStJ DL  
CHIEF FIRE OFFICER**

# BEDFORDSHIRE FIRE & RESCUE AUTHORITY

Internal Audit Strategy 2019 - 2020

Presented at the Audit and Standards committee meeting of: 14 March 2019

This report is solely for the use of the persons to whom it is addressed.

To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party.

## EXECUTIVE SUMMARY

Our Internal Audit Plan for 2019/20 is presented for consideration by the Audit and Standards Committee.

The key points to note from our plan are:



**2019 Internal Audit priorities:** Internal audit activity for 2019/20 is based on analysing your corporate objectives, risk profile and assurance framework as well as other factors affecting you in the year ahead, including changes within the sector. Our detailed plan for 2019/20 is included at Section 1.



**Level of Resource:** The level of resource required to deliver the plan is consistent with 2018/19. We will continue the use of technology when undertaking operational audits in 2019. This will strengthen our sampling, increasing the level of assurance provided. Refer to Appendix A.



**Core Assurance:** As required to provide the Head of Internal Audit Opinion, our plan includes an assessment of governance, risk management, key financial controls, key risk areas and follow up. We have worked with management to re-prioritise the work planned for 2019/20 to meet the risk profile of the organisation including a review of the new Mobilising System Project within 2019/20 and both widening and delaying our review of Data Quality to fit in with the organisations wider work in this area.

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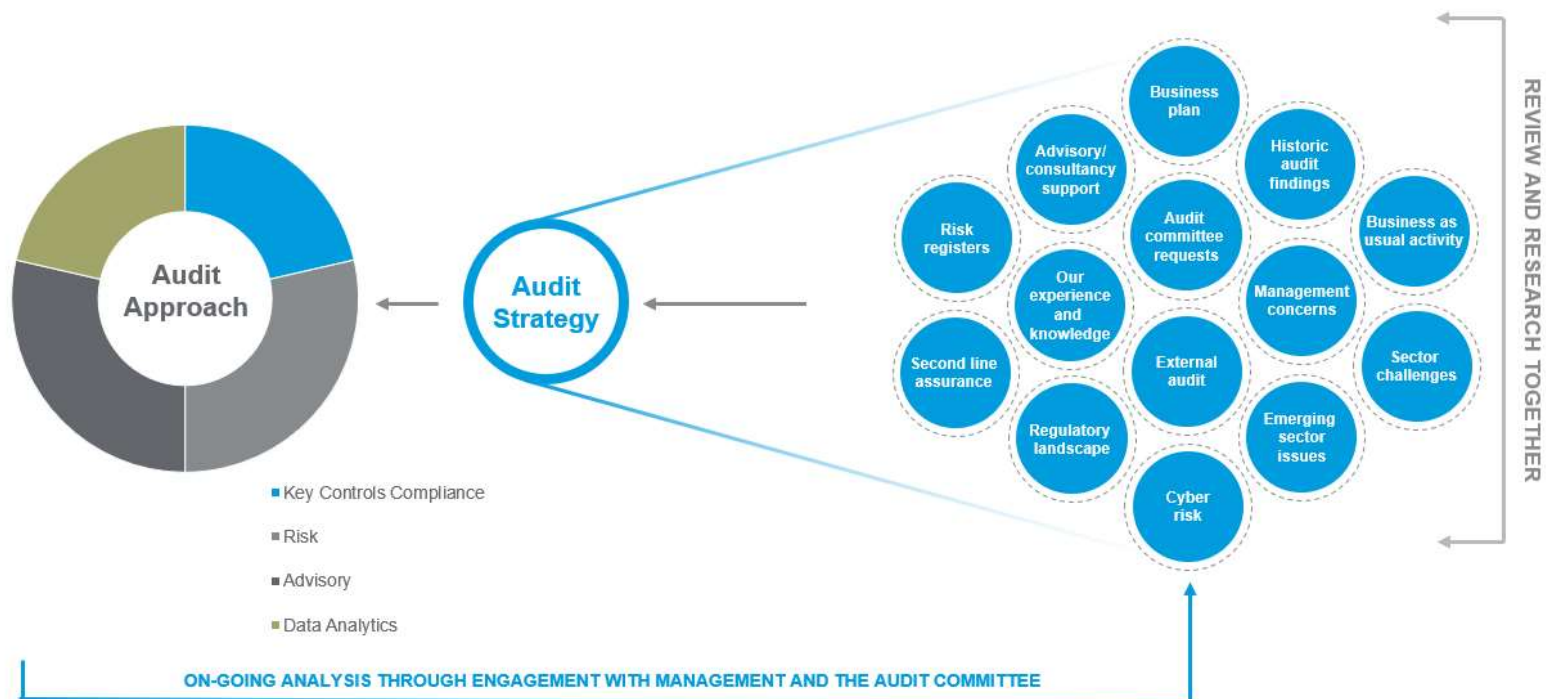
# 1. YOUR INTERNAL AUDIT PLAN 2019/20

Our approach to developing your internal audit plan is based on analysing your corporate objectives, risk profile and assurance framework as well as other, factors affecting Bedfordshire Fire and Rescue Authority in the year ahead, including changes within the sector.

## Risk management processes

We have evaluated your risk management processes and consider that we can place reliance on your risk registers to inform the internal audit strategy. We have used various sources of information (see Figure A below) and discussed priorities for internal audit coverage with senior management and the Audit and Standards committee.

Figure A: Audit considerations – sources considered when developing the Internal Audit Strategy.



Based on our understanding of the organisation, the information provided to us by stakeholders, and the regulatory requirements, we have developed an annual internal plan for the coming year and a high level strategic plan (see Section 2 and Appendix B for full details).



## 2. INTERNAL AUDIT PLAN 2019/20

The table below shows each of the reviews that we propose to undertake as part of the internal audit plan for 2019/20. The table details the strategic risks (CRRs) which may warrant internal audit coverage. This review of your risks allows us to ensure that the proposed plan will meet the organisation's assurance needs for the forthcoming and future years. As well as assignments designed to provide assurance or advisory input around specific risks, the strategy also includes: time for tracking the implementation of actions and an audit management allocation.

Objective of the review (Strategic risk)	Audit approach	Fee	Proposed timing
<p><b>Risk Management</b></p> <p>This review will incorporate a 'deep dive' into the risk register. This will include a sample of risks and discussion with the risk owners in relation to the risk description, controls in place, risk score and assurances in place.</p>	Systems Based	£2,000	Q3
<p><b>Key Financial Controls</b></p> <p>This will include key controls testing and any management concerns including previous recommendations. Areas potentially included general ledger, cash, banking and treasury management, payments and creditors, income and debtors, asset management and payroll.</p> <p><b>CRR00011 - Adequate Financial Procedures</b></p>	Key Controls Compliance	£2,600	Q3
<p><b>Asset Management – Asset Tracking</b></p> <p>The Service are currently using spreadsheets for asset tracking including the local equipment and workshop, following a delay it is now planned that this will transfer for a cloud based solution in 2020/21, as such our review in 2019/20 will focus on the accuracy of the spreadsheets to monitor assets prior to transfer.</p> <p><b>CRR00005 - Ensuring our assets are tracked and maintained</b></p>	Risk Based	£1,900	Q4
<p><b>Mobilising System Project</b></p> <p>Review of the project management arrangements for the implementation of the new Mobilising System. This will include the overall governance arrangements, project plan, risk management arrangements, documentation of specification, procurement arrangements, clear timescales and project reporting.</p>	Advisory	£2,250	Q2

Objective of the review (Strategic risk)	Audit approach	Fee	Proposed timing
<b>Operational Business Continuity</b> Review of the Operational Business Continuity arrangements in place where the Service must deal with situations such as unavailability of staff. This will include a review of the arrangements in place and the testing and review of the arrangements. We will not include within our review ICT Business Continuity arrangements. <b>CRR00036 – Absenteeism &amp; CRR00037 - Insufficient numbers of competent fire fighters</b>	Risk Based	£1,650	Q1
<b>ICT – Cyber Security</b> The Service is due to complete the self certification of Cyber Essentials by May 2019, our audit will focus on the arrangements in place against Cyber Essentials following this. <b>CRR00038 - Cyber Security Measures &amp; CRR00045 That a Cyber Attack penetrates our network affecting key systems and services</b>	Key Controls Compliance	£2,700	Q2
<b>Property - Statutory Compliance</b> Compliance with policies and procedures relating to properties. This could include areas such as Asbestos, gas safety, specific areas will be agreed with management prior to the start of the review.	Systems Based	£1,900	Q1
<b>Environmental Review</b> Review of the environmental strategy in place including compliance and reporting against the Strategy.	Systems Based	£1,900	Q4
<b>Other Internal Audit Activity</b>			
<b>Follow up</b> To meet internal auditing standards, and to provide assurance on action taken to address recommendations previously agreed by management.	Follow up	£1,250	Q4
<b>Audit Strategy / Annual Report</b> This will include: <ul style="list-style-type: none"> <li>Internal Audit Needs Assessment / Strategic and Annual Internal Audit Plans</li> <li>Preparation of the annual internal audit opinion</li> </ul>	N/A	£2,700	Throughout the year

Objective of the review (Strategic risk)	Audit approach	Fee	Proposed timing
<b>Management</b> This will include: <ul style="list-style-type: none"> <li>• Planning and finalising reports;</li> <li>• Ongoing liaison meetings and calls, and progress reporting; and</li> <li>• Preparation for and attendance at Audit and Standards Committee.</li> </ul>	N/A	£3,597	Throughout the year

A detailed planning process will be completed for each review, and the final scope will be documented in an Assignment Planning Sheet. This will be issued to the key stakeholders for each review.

## 2.1 Working with other assurance providers

The Audit and Standards committee is reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not, seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers, such as external audit to ensure that duplication is minimised, and a suitable breadth of assurance obtained.

# APPENDIX A: YOUR INTERNAL AUDIT SERVICE

Your internal audit service is provided by RSM Risk Assurance Services LLP. The team will be led by Daniel Harris as your Head of Internal Audit, supported by Suzanne Rowlett as your senior manager.

## Core team

The delivery of the 2019/20 audit plan will be based around a core team. However, we will complement the team with additional specialist skills where required.

## Conformance with internal auditing standards

RSM affirms that our internal audit services are designed to conform to the Public Sector Internal Audit Standards (PSIAS).

Under PSIAS, internal audit services are required to have an external quality assessment every five years. Our risk assurance service line commissioned an external independent review of our internal audit services in 2016 to provide assurance whether our approach meets the requirements of the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA) on which PSIAS is based.

The external review concluded that “there is a robust approach to the annual and assignment planning processes and the documentation reviewed was thorough in both terms of reports provided to Audit and Standards committee and the supporting working papers.” RSM was found to have an excellent level of conformance with the IIA’s professional standards.

The risk assurance service line has in place a quality assurance and improvement programme to ensure continuous improvement of our internal audit services. Resulting from the programme, there are no areas which we believe warrant flagging to your attention as impacting on the quality of the service we provide to you.

## Conflicts of interest

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under internal auditing standards.

# APPENDIX B: INTERNAL AUDIT STRATEGY 2019 – 2021

The table below shows an overview of the audit coverage to be provided through RSM's delivery of the internal audit strategy. This has been derived from the process outlined in Section 1 above, as well as our own view of the risks facing the sector as a whole.

Assurance Provided	
	Red - Minimal Assurance / Poor Progress
	Amber/red - Partial Assurance / Little Progress
	Amber/green - Reasonable Assurance / Reasonable Progress
	Green - Substantial Assurance / Good Progress
	Advisory / AUP
	IDEA

Internal Audit – Third Line of Assurance (Independent review / assurance)					
2016/17	2017/18	2018/19	2019/20	2020/21	2021/22

Audit Area	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Governance			Draft		✓	
Risk Management				✓	✓	✓
Key Financial Controls				✓	✓	✓
Community Risk Management Plan					✓	
Fleet Management					✓	
Data Quality						✓
Asset Management – Asset Tracking				✓ (Spreadsheets)	✓ (Cloud Based solution)	

Assurance Provided	
	Red - Minimal Assurance / Poor Progress
	Amber/red - Partial Assurance / Little Progress
	Amber/green - Reasonable Assurance / Reasonable Progress
	Green - Substantial Assurance / Good Progress
	Advisory / AUP
	IDEA

**Internal Audit – Third Line of Assurance**  
(Independent review / assurance)

Audit Area	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Retained Recruitment						✓
Risk Protection Pool						
Stock Control			TBC			✓
Mobilising System Project				✓		
Pension Board						
Procurement - Tendering					✓	
Collection / Use of Risk Information					✓	
Operational Business Continuity				✓		
Human Resources						✓
ICT – Cyber Security				✓		✓

Assurance Provided	
	Red - Minimal Assurance / Poor Progress
	Amber/red - Partial Assurance / Little Progress
	Amber/green - Reasonable Assurance / Reasonable Progress
	Green - Substantial Assurance / Good Progress
	Advisory / AUP
	IDEA

Audit Area	Internal Audit – Third Line of Assurance (Independent review / assurance)					
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
General Data Protection Regulation (GDPR)						✓
Property - Statutory Compliance				✓		
Benefits Realisation					✓	
Environmental Review				✓		
Follow Up				TBC	✓	✓

# APPENDIX C: INTERNAL AUDIT CHARTER

## Need for the charter

This charter establishes the purpose, authority and responsibilities for the internal audit service for Bedfordshire Fire and Rescue Authority. The establishment of a charter is a requirement of the Public Sector Internal Audit Standards (PSIAS) and approval of the charter is the responsibility of the Audit and Standards committee.

The internal audit service is provided by RSM Risk Assurance Services LLP (“RSM”).

We plan and perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that the organisation has in place, focusing in particular on how these arrangements help you to achieve its objectives. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Core principles for the professional practice of internal auditing;
- Definition of internal auditing;
- Code of ethics; and
- The Standards.

## Mission of internal audit

As set out in the PSIAS, the mission articulates what internal audit aspires to accomplish within an organisation. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the mission.

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*“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”.*

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## Independence and ethics

To provide for the independence of internal audit, its personnel report directly to the Partner acting as your head of internal audit). The independence of RSM is assured by the internal audit service reporting to the chief fire officer, with further reporting lines to the Temporary Assistant Chief Officer – Finance and Corporate Services.

The head of internal audit has unrestricted access to the chair of Audit and Standards committee to whom all significant concerns relating to the adequacy and effectiveness of risk management activities, internal control and governance are reported.



Conflicts of interest may arise where RSM provides services other than internal audit to Bedfordshire Fire and Rescue Authority Steps will be taken to avoid or manage transparently and openly such conflicts of interest so that there is no real or perceived threat or impairment to independence in providing the internal audit service. If a potential conflict arises through the provision of other services, disclosure will be reported to the Audit and Standards committee. The nature of the disclosure will depend upon the potential impairment and it is important that our role does not appear to be compromised in reporting the matter to the Audit and Standards committee. Equally we do not want the organisation to be deprived of wider RSM expertise and will therefore raise awareness without compromising our independence.

## Responsibilities

In providing your outsourced internal audit service, RSM has a responsibility to:

- Develop a flexible and risk based internal audit strategy with more detailed annual audit plans. The plan will be submitted to the Audit and Standards committee for review and approval each year before work commences on delivery of that plan.
- Implement the internal audit plan as approved, including any additional tasks requested by management and the Audit and Standards committee.
- Ensure the internal audit team consists of professional audit staff with sufficient knowledge, skills, and experience.
- Establish a quality assurance and improvement program to ensure the quality and effective operation of internal audit activities.
- Perform advisory activities where appropriate, beyond internal audit's assurance services, to assist management in meeting its objectives.
- Bring a systematic disciplined approach to evaluate and report on the effectiveness of risk management, internal control and governance processes.
- Highlight control weaknesses and required associated improvements together with corrective action recommended to management based on an acceptable and practicable timeframe.
- Undertake follow up reviews to ensure management has implemented agreed internal control improvements within specified and agreed timeframes.
- Report regularly to the Audit and Standards committee to demonstrate the performance of the internal audit service.

For clarity, we have included the definition of 'internal audit', 'senior management' and 'Authority'.

- Internal audit – a department, division, team of consultant, or other practitioner (s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. The internal audit activity helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.
- Corporate Management Team who are the team of individuals at the highest level of organisational management who have the day-to-day responsibilities for managing the organisation.

- Authority - The highest level governing body charged with the responsibility to direct and/or oversee the organisation's activities and hold organisational management accountable. Furthermore, "Authority" may refer to a committee or another body to which the governing body has delegated certain functions (eg Audit and Standards committee).

## Client care standards

In delivering our services we require full cooperation from key stakeholders and relevant business areas to ensure a smooth delivery of the plan. We proposed the following KPIs for monitoring the delivery of the internal audit service:

- Discussions with senior staff at the client take place to confirm the scope four weeks before the agreed audit start date.
- Key information such as: the draft assignment planning sheet are issued by RSM to the key auditee four weeks before the agreed start date.
- The lead auditor to contact the client to confirm logistical arrangements at least 10 working days before the commencement of the audit fieldwork to confirm practical arrangements, appointments, debrief date etc.
- Fieldwork takes place on agreed dates with key issues flagged up immediately.
- A debrief meeting will be held with audit sponsor at the end of fieldwork or within a reasonable time frame.
- Draft reports will be issued within 10 working days of the debrief meeting and will be issued by RSM to the agreed distribution list / Sharefile.
- Management responses to the draft report should be submitted to RSM.
- Within three working days of receipt of client responses the final report will be issued by RSM to the assignment sponsor and any other agreed recipients of the report.

## Authority

The internal audit team is authorised to:

- Have unrestricted access to all functions, records, property and personnel which it considers necessary to fulfil its function.
- Have full and free access to the Audit and Standards committee.
- Allocate resources, set timeframes, define review areas, develop scopes of work and apply techniques to accomplish the overall internal audit objectives.
- Obtain the required assistance from personnel within the organisation where audits will be performed, including other specialised services from within or outside the organisation.

The head of internal audit and internal audit staff are not authorised to:

- Perform any operational duties associated with the organisation.
- Initiate or approve accounting transactions on behalf of the organisation.
- Direct the activities of any employee not employed by RSM unless specifically seconded to internal audit.

## Reporting

An assignment report will be issued following each internal audit assignment. The report will be issued in draft for comment by management, and then issued as a final report to management, with the executive summary being provided to the Audit and Standards committee. The final report will contain an action plan agreed with management to address any weaknesses identified by internal audit.

The internal audit service will issue progress reports to the Audit and Standards committee and management summarising outcomes of audit activities, including follow up reviews.

As your internal audit provider, the assignment opinions that RSM provides the organisation during the year are part of the framework of assurances that assist the Authority in taking decisions and managing its risks.

As the provider of the internal audit service we are required to provide an annual opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the Authority is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The annual opinion will be provided to the organisation by RSM Risk Assurance Services LLP at the financial year end. The results of internal audit reviews, and the annual opinion, should be used by management and the Authority to inform the organisation's annual governance statement.

## Data protection

Internal audit files need to include sufficient, reliable, relevant and useful evidence in order to support our findings and conclusions. Personal data is not shared with unauthorised persons unless there is a valid and lawful requirement to do so. We are authorised as providers of internal audit services to our clients (through the firm's terms of business and our engagement letter) to have access to all necessary documentation from our clients needed to carry out our duties.

## Quality Assurance and Improvement

As your external service provider of internal audit services, we have the responsibility for maintaining an effective internal audit activity. Under the standards, internal audit services are required to have an external quality assessment every five years. In addition to this, we also have in place an internal quality assurance and improvement programme, led by a dedicated team who undertake these reviews. This ensures continuous improvement of our internal audit services.

Any areas which we believe warrant bringing to your attention, which may have the potential to have an impact on the quality of the service we provide to you, will be raised in our progress reports to the Audit and Standards committee.

## **Fraud**

The Audit and Standards committee recognises that management is responsible for controls to reasonably prevent and detect fraud. Furthermore, the Audit and Standards committee recognises that internal audit is not responsible for identifying fraud; however internal audit will be aware of the risk of fraud when planning and undertaking any assignments.

## **Approval of the internal audit charter**

By approving this document, the internal audit strategy, the Audit and Standards committee is also approving the internal audit charter.

# FOR FURTHER INFORMATION CONTACT

**Daniel Harris, Head of Internal Audit**

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The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

Our report is prepared solely for the confidential use of Bedfordshire Fire & Rescue Service, and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to you on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

RSM Risk Assurance Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB.

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For Publication

Bedfordshire Fire and Rescue Authority  
Audit and Standards Committee  
14 March 2019  
Item No. 10

**REPORT AUTHOR: CHIEF FIRE OFFICER**

**SUBJECT: AUDIT AND GOVERNANCE ACTION PLAN MONITORING: EXCEPTION REPORT AND SUMMARY ANALYSIS**

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For further information on this report contact: Karen Daniels  
Service Assurance Manager  
Tel No: 01234 845013

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Background Papers:

- Action Plans contained in Internal Audit Reports
  - Action Plan contained in the current Annual Governance Statement
  - Audit Outcome Monitoring reports and Minutes from the Policy and Challenge Group meetings
- 

Implications (tick ✓):

LEGAL			FINANCIAL	
HUMAN RESOURCES			EQUALITY IMPACT	
ENVIRONMENTAL			POLICY	
CORPORATE RISK	Known	✓	OTHER (please specify)	
	New		CORE BRIEF	

*Any implications affecting this report are noted at the end of the report.*

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Item 10.1

## **PURPOSE:**

To present Members with a summary statistical analysis of actions arising from internal audit reports over the last three financial years to date and from the Fire and Rescue Authority's current Annual Governance Statement; together with any exception report on those actions currently in progress for which the relevant Policy and Challenge Group has received a proposal to extend the original timing for completion.

## **RECOMMENDATION:**

That Members receive the report and consider any issues arising.

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### 1. Introduction

- 1.1 The Audit and Standards Committee has previously agreed that a full monitoring report of current progress on applicable Audit and Governance Statement action plans should be made to each meeting of the appropriate Policy and Challenge Group; and that the Audit and Standards Committee should receive a summary analysis of action plans together with a full exception report of all actions in progress for which a Policy and Challenge Group has received a proposal for an extension to the original completion date.
- 1.2 This is the fourth summary analysis and exception report to the Audit and Standards Committee for the year 2018/19 and it incorporates information from all monitoring reports made to Policy and Challenge Groups in the reporting period to date.

### 2. Audit and Governance Action Plans Summary Analysis

- 2.1 The Audit Action Plans Summary Analysis (attached as Appendix A) provides a summary statistical analysis of the status of all actions arising from audit reports received over the last three financial years (ie 2016/17 to date).
- 2.2 The report provides the following details for each audit:
  - Audit report title and date;
  - Responsible Policy and Challenge Group;



- Total number of actions arising and their prioritisation;
- Number of actions completed (by priority) subject to follow-up audit;
- Number of actions completed (by priority) for which a subsequent or no further follow-up is required;
- Number of actions (by priority) still in progress; and
- Number of extensions to original completion dates that have been required in respect of all actions.

2.3 It should be noted that actions which are shown as completed for which a subsequent or no further follow up required include:

- High and medium priority actions for which a subsequent or follow-up audit has been successfully completed.
- All completed low priority actions - for which a subsequent or follow-up audits are not undertaken; and
- Actions which the Auditors have designated as 'superseded', ie actions which have been replaced, on follow-up audit, by a new action. In such cases, the new actions are included against the relevant follow up audit.

2.4 The report shows that a total of 1 High Priority, 30 Medium Priority and 55 Low Priority actions have been agreed over the reporting period, of which, 0 High, 4 Medium and 5 Low are still in progress.

2.5 The Annual Governance Statement Action Plan for 2017/18 had three actions in 2018/19 all of which are now completed.

### 3. Audit Action Plans Exception Report

3.1 The Audit Action Plans Exception Report provides details of all actions arising from internal audits which are still in progress and for which the relevant Policy and Challenge Group has been requested to consider an extension to the original timing for completion.

3.2 There is no requests to extend the original completion date.

#### 4. Governance Action Plan Exception Report

4.1 The Governance Action Plan Exception Report provides details of actions arising from the Authority's 2017/18 Annual Governance Statement (which was formally adopted by Audit and Standards Committee, on behalf of the Authority, at their meeting on 6 July 2018) which are still in progress.

4.2 For the current period there are no exception report(s).

#### 5. Organisational Risk Implications

5.1 The actions identified within internal audit reports and the Annual Governance Statement represent important improvements to the Authority's current systems and arrangements. As such, they constitute important measures whereby the Authority's overall management of organisational risk can be enhanced.

5.2 In addition, ensuring effective internal audit arrangements and the publication of an Annual Governance Statement are legal requirements for the Authority and the processes of implementation, monitoring and reporting of improvement actions arising therefore constitute an important element of the Authority's governance arrangements.

**PAUL FULLER CBE QFSM MStJ DL  
CHIEF FIRE OFFICER**

## Audit and Annual Governance Statement Action Plans Summary Analysis

Audit Report & Date	Policy & Challenge Group	Total Actions			Actions Completed (subject to Follow up audit)			Actions Completed/ Superseded (no further Follow-up required or confirmed by follow up audit)			Actions Currently in Progress			No of Completion Extensions Required to Date (All Actions)		
		H	M	L	H	M	L	H	M	L	H	M	L	H	M	L
Key Financial Controls (Apr 2016)	Corporate Services	-	-	3	-	-	-	-	-	3	-	-	-	-	-	-
IT Shared Service (May 2016)	Corporate Services	-	-	2	-	-	-	-	-	2	-	-	-	-	-	-
Follow-up – Fuel Cards (May 2016)	Corporate Services	-	1	-	-	-	-	-	1	-	-	-	-	-	-	-
Follow-up – Training and Development of Operational Staff (May 2016)	Human Resources	-	1	-	-	-	-	-	1	-	-	-	-	-	-	-
Fleet Management (Nov 2016)	Corporate Services	1	1	4	-	-	-	1	1	4	-	-	-	-	-	-
Stock and Inventory (Dec 2016)	Corporate Services	-	2	1	-	-	-	-	2	1	-	-	-	-	-	-
Risk Protection Pool (Jan 2017)	Corporate Services	-	1	-	-	-	-	-	1	-	-	-	-	-	-	-
Key Financial Controls (Feb 2017)	Corporate Services	-	1	3	-	-	-	-	1	3	-	-	-	-	-	-
Data Quality – Incident Reporting System (Feb 2017)	Service Delivery	-	3	2	-	-	-	-	3	2	-	-	-	-	-	-
Governance – Transparency and Decision Making (May 2017)	Corporate Services	-	3	2	-	-	-	-	3	2	-	-	-	-	-	-
Governance – Transparency and Decision Making (May 2017)	Human Resources	-	-	2	-	-	-	-	-	2	-	-	-	-	-	2
Retained Recruitment (Apr 2017)	Human Resources	-	1	5	-	-	-	-	1	5	-	-	-	-	-	-

## Audit and Annual Governance Statement Action Plans Summary Analysis

Audit Report & Date	Policy & Challenge Group	Total Actions			Actions Completed (subject to Follow up audit)			Actions Completed/ Superseded (no further Follow-up required or confirmed by follow up audit)			Actions Currently in Progress			No of Completion Extensions Required to Date (All Actions)		
		H	M	L	H	M	L	H	M	L	H	M	L	H	M	L
Follow up - Fuel Cards (May 2017)	Corporate Services	-	-	1	-	-	-	-	-	1	-	-	-	-	-	-
Risk Management (May 2017)	Corporate Services	-	4	-	-	-	-	-	4	-	-	-	-	-	-	
Procurement – Tendering ( Aug 2017)	Corporate Services	-	-	2	-	-	-	-	-	2	-	-	-	-	-	
Collaboration – Policing and Crime Act 2017 (Nov 2018)	Service Delivery	-	1	4	-	1	-	-	-	4	-	-	-	-	-	
Pensions Board (Jan 2018)	Human Resources	-	-	4	-	-	-	-	-	4	-	-	-	-	-	
Key Financial Controls (Jan 2018)	Corporate Services	-	-	3	-	-	-	-	-	3	-	-	-	-	-	
Payroll – Key Controls and New System Benefits (Apr 2018)	Human Resources	-	2	2	-	2	-	-	-	2	-	-	-	-	-	
Risk Management (Apr 2018)	Corporate Services	-	3	7	-	3	-	-	-	7	-	-	-	-	1	
Follow up – Fleet Management & Stock and Inventory (Jun 2018)	Corporate Services	-	1	1	-	1	-	-	-	1	-	-	-	-	-	
Use of Risk Information (Sep 2018)	Service Delivery	-	1	2	-	1	-	-	-	2	-	-	-	-	-	
Key Financial Controls (Jan 2019)	Corporate Services	-	-	1	-	-	-	-	-	-	-	-	1	-	-	
Risk Management (Feb 2019)	Corporate Services	-	4	4	-	-	-	-	-	-	-	4	4	-	-	

**Audit and Annual Governance Statement Action Plans Summary Analysis**

Audit Report & Date	Policy & Challenge Group	Total Actions			Actions Completed (subject to Follow up audit)			Actions Completed/ Superseded (no further Follow-up required or confirmed by follow up audit)			Actions Currently in Progress			No of Completion Extensions Required to Date (All Actions)		
		H	M	L	H	M	L	H	M	L	H	M	L	H	M	L
<b>Totals</b>		<b>1</b>	<b>30</b>	<b>55</b>	<b>-</b>	<b>8</b>	<b>-</b>	<b>1</b>	<b>18</b>	<b>50</b>	<b>-</b>	<b>4</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>3</b>

## Governance Action Plan Exception Report

Annual Governance Statement Action Plan from 2017/18 to be completed in 2018/19				
Year	Total Actions	Actions Completed	Actions in Progress	No of Completion Extensions Required to Date (All Actions)
2017/18	3	3*	0	0

\* 1 Deferred to 2019/20

For Publication

Bedfordshire Fire and Rescue Authority  
Audit and Standards Committee  
14 March 2019  
Item No. 11

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**REPORT AUTHOR:** CHIEF FIRE OFFICER AND TREASURER

**SUBJECT:** UPDATE TO THE AUTHORITY'S FINANCIAL REGULATIONS

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For further information on this Report contact: G Chambers  
Temporary Assistant Chief Officer/Treasurer  
Tel No: 01234 845000

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Background Papers: The Authority's current version of the Handbook.

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Implications (tick ✓):

LEGAL	✓	FINANCIAL	✓
HUMAN RESOURCES		EQUALITY IMPACT	
ENVIRONMENTAL		POLICY	✓
ORGANISATIONAL RISK	✓	OTHER (please specify)	

*Any implications affecting this report are noted at the end of the report.*

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**PURPOSE**

To review and update the Authority's Financial Regulations.

**RECOMMENDATION**

To consider and approve, the Authority's:

i. Amended Financial Regulations

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1. Introduction

1.1 The Financial Regulations form part of the "Handbook" of the Authority. The Handbook is available on the internet. The Financial Regulations were last updated in March 2017.

Delegation has previously been made to the Treasurer, to make minor amendments to these documents.

2. Proposed updates to the Financial Regulations

2.1 The Financial Regulations are attached at Appendix 1. There have been minimal updates made.

2.2 Updates in the past have been made where referring to old legislation.

3. Summary

3.1 The proposed minor amendments to the Financial Regulations will bring them up to date.

**PAUL FULLER CBE QFSM MStJ DL**  
**CHIEF FIRE OFFICER**

**GAVIN CHAMBERS**  
**T/ACO & TREASURER**



**FINANCIAL  
REGULATIONS**

**MARCH 2019**

## **FINANCIAL REGULATIONS**

The Fire Services Act 1947 gave provision for a Combination Scheme Order and the subsequent setting up of a Fire and Rescue Authority as a body corporate. Local Government Acts and other regulations or codes of practice are quoted in these Financial Regulations where they are applicable in accordance with the Combination Scheme or have been adopted by the Fire and Rescue Authority ('the Authority'). The Service shall, at all times, endeavour to secure the best value for money while achieving the quality and standards in line with the Authority's policies.

These Regulations outline the system of financial administration to be operated by the Service, and it shall be the responsibility of the Authority, the Treasurer and the Chief Fire Officer to ensure that they are observed.

Where the Authority has allocated powers to the Chief Fire Officer these shall be exercised in accordance with the Financial Regulations.

Financial Regulations shall be deemed to be part of Standing Orders in so far as they relate to the conduct of business.

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1. Introduction
- 1.1 The Authority is required under Section 112 of the Local Government Finance Act 1988, to make arrangements for the proper administration of its financial affairs, and the Treasurer of the Fire Authority is the designated officer for this purpose. Furthermore, under Section 114 of the Local Government Finance Act 1988, the Treasurer is required to make a report regarding unlawful expenditure and ensuring compliance with the Accounts and Audit Regulations 2015. Extracts from the relevant legislation are shown at Appendix A.
- 1.2 The Treasurer shall be the chief financial adviser to the Authority and shall keep the Authority informed of the financial implications of all new policies and changes of policy.
- 1.3 The Financial Regulations set out are issued to assist the Chief Fire Officer in carrying out his/her responsibilities. If the Chief Fire Officer wishes to seek to implement different procedures then provided the Treasurer is satisfied that all necessary financial controls are met, such procedures may be agreed.
- 1.4 The Treasurer and Chief Fire Officer will jointly review these Regulations from time to time to maintain currency and reflect any changes agreed by the Authority.
- 1.5 Where the Chief Fire Officer delegates powers to staff in accordance with a scheme of delegated financial management, a record including appropriate authorisation of such delegation shall be maintained and held by the Service's Treasurer.
- 1.6 The nature and format of all accounting procedures and financial records shall be prepared by the Chief Fire Officer and approved by the Treasurer. Such best practice will normally be taken as that defined through, inter alia:
  - International Financial Reporting Standards (IFRS)
  - The Chartered Institute of Public Finance (CIPFA) Code of Practice on Local Authority Accounting and the Statement of Recommended Practice (SORP) and the SORP Guidance Notes  
Issued by the International Accounting Standards Board
  - Service Reporting Code of Practice (SERCOP)  
Issued by CIPFA
  - Accounts and Audit Regulations (England) 2015
- 1.7 Nothing in these regulations shall prevent the Chief Fire Officer incurring expenditure essential to meet the needs of an emergency or disaster subject to a report by the Chief Fire Officer to the Authority at the earliest opportunity, such reports to be jointly presented by the Chief Fire Officer and the Treasurer where there is a likelihood of being unable to contain the additional expenditure within the overall approved budget for the Service.

## 2. Staffing

- 2.1 Within the total financial provision approved by the Authority, the Chief Fire Officer shall be entitled to vary the numbers and composition of uniformed staff and non-uniformed staff in order to meet service requirements provided such variations do not commit the Authority to increased expenditure in future years.
- 2.2 The Chief Fire Officer must adhere to the mandatory aspects of the Authority's Human Resources Policies and Practices including the proper use of appointment procedures, the proper use of job evaluation or other agreed system for determining remuneration, and the method used to make payments to staff including those falling within a devolved management scheme.
- 2.3 The Chief Fire Officer must adhere to all Central Government rules and regulations as they relate to personnel and training.
- 2.4 The Chief Fire Officer shall ensure that personnel information is maintained in a form necessary to comply with the Authority's Human Resources Policies and Practices and to ensure that any system(s) used to process personnel data or remuneration is properly maintained.

## 3. Financial Information Systems

- 3.1 The Authority's agreed Information Systems Strategy guidelines shall be followed by the Chief Fire Officer.
- 3.2 The Chief Fire Officer shall be responsible for the control of systems in operation within the Service and the security of data necessary to accord with the General Data Protection Regulation (GDPR) and the Data Protection Act 2018. When assessing systems external to the Service, the Chief Fire Officer will also be responsible for ensuring that agreed procedures are followed.

## 4. Internal Audit

- 4.1 The Treasurer shall be responsible for putting in place adequate and effective internal audit arrangements. The agents for carrying out internal audit shall have the authority to:
  - a. Visit all Fire and Rescue Service establishments and premises to carry out audits of their activities.
  - b. Access at all times to all property, documents and records considered relevant.
  - c. Require any information and explanation considered necessary for the audit.
  - d. Require any employee of the Authority to produce cash, stores or any other property of the Authority or property of persons for whom the Authority is responsible under their control.

## 5. Accounting

- 5.1 The Chief Fire Officer is responsible for the operation of financial processes within the Service and shall ensure that adequate controls, to the satisfaction of the Treasurer, are in place.
- 5.2 The nature and format of all accounting systems, financial accounts and supporting records shall be prepared by the Chief Fire Officer and approved by the Treasurer so as to meet the Accounts and Audit Regulations (England) 2015. It shall be the responsibility of the Chief Fire Officer to ensure that such accounts and systems are kept up to date either through the staff under his control or other appointed agents.
- 5.3 The Chief Fire Officer shall ensure that the principles of internal control within all operations are maintained at least to a standard agreed with the Treasurer. In particular, the following principles shall be observed in connection with accounting systems:
- a. The duties of providing information regarding sums due to or from the Authority and of calculating, checking and recording those sums shall be separated as completely as possible from the duty of collecting or disbursing them.
  - b. Officers charged with the duty of examining and checking the accounts of financial transactions shall not themselves be engaged in any of these transactions.
  - c. Immediately there is any suspicion of irregularity affecting income, expenditure, cash, stores or any other resources of the Authority, the matter shall be reported by the relevant officer in accordance with the Service's Anti-Fraud, Bribery and Corruption Policy.
- 5.4 The Chief Fire Officer/Treasurer shall conduct a review, at least once a year, on the effectiveness of the Service's system of internal control and shall include an Annual Governance Statement in the Authority's annual Statement of Accounts.

## 6. Budget Procedures

- 6.1 The Chief Fire Officer/Treasurer shall prepare annual estimates for both revenue and capital expenditure for presentation to the Authority at such time as may be determined by the Authority. The Treasurer shall ensure that the estimates are presented in a technically correct format and linked with the Authority's Strategic Objectives, in accordance with any criteria set by the Authority.
- 6.2 Taking into account the meeting dates of the council tax billing local authorities, the budget and council tax for the Authority for the next financial year commencing in April, will be set no later than the end of February.
- 6.3 Not later than 28 February each year the Treasurer, duly authorised by the Authority, shall give notice to each billing authority of the amount of its precept in the next financial year.

- 6.4 Capital projects shall be incorporated in a Capital Programme for consideration by the Authority, at the time of the annual estimates, detailing the full year revenue cost associated with each project. The proposed Programme shall have due regard to the concepts of prudence and affordability as outlined in the Prudential Code.
- 6.5 Prior to the approval by the Authority of a capital programme each year, the Treasurer and the Corporate Management Team member requesting the project, shall prepare full financial appraisals of all projects to be put forward for inclusion in the capital programme, demonstrating the contribution each project is making to the Authority's Strategic Objectives.
7. Budgetary Control
- 7.1 **Revenue Budget**
- 7.1.1 The Chief Fire Officer shall be responsible for managing and directing resources to achieve the objectives of the budget. This will involve the monitoring of expenditure and income and the regular review of performance, which will be reported to the Authority. In circumstances where variations are such that it is unlikely that they can be contained within overall budget provision, then such reports shall be joint with the Treasurer. Where budgets are delegated to financial managers ('budget managers'), the budget managers have the same responsibility to the Chief Fire Officer.
- 7.1.2 For each budget head within the revenue budget as presented to the Authority, up to £100,000 may be transferred in each financial year from one heading to another by the Chief Fire Officer. All other transfers will require the approval of the Authority, unless they are deemed "Technical virements" that the Treasurer has approval to authorise.
- 7.1.3 Unless approved by the Authority no transfer will be permitted if the Authority is thereby committed to additional expenditure in future years.
- 7.1.4 Where the budget is delegated to budget managers, transfers may be made from one head to another as approved by the delegated revenue budget management arrangements scheme.
- 7.1.5 The Treasurer, in consultation with the Chief Fire Officer, will report on the outturn of expenditure and income to the Authority as soon as practicable after the end of the financial year.
- 7.2 **Capital Programme**
- 7.2.1 Capital expenditure shall be considered as part of the capital programme where items fall within Statement of Recommended Practice definitions or as directed by the Secretary of State, and exceed a minimum threshold value (ie are not de minimus). The threshold will be agreed with the external auditors from time to time.
- 7.2.2 No expenditure shall be incurred on capital projects which are not included in the approved capital programme and no contracts entered into or tender accepted unless the Authority is satisfied that the necessary borrowing powers or other resources have been received.

- 7.2.3 Any significant alteration to the size, content, specification or timing of a capital scheme which increases the cost by more than 10% must be reported to the Authority. Any overall forecast in total capital expenditure which exceeds the limit for which authority has been given should be reported to the Authority immediately.
- 7.2.4 The final cost of each capital scheme chargeable against the capital programme shall be reported by the Chief Fire Officer/Treasurer to the Authority as soon as possible after completion, together with explanations for variances from the estimated cost.
- 7.2.5 The Treasurer, in consultation with the Chief Fire Officer, will report on the outturn of capital expenditure to the Authority as soon as practicable after the end of the financial year.

## 8. Orders for Good, Works and Services

- 8.1 The Chief Fire Officer shall be responsible for the safe custody and proper issue of official orders by the Service. He/she shall maintain a list of all officers authorised to sign on his behalf.
- 8.2 Official orders must not be issued for purchases of a private nature for employees.
- 8.3 The Procurement Policy and Procedures fully detail the rules regarding contracts and the procurement of goods, works and services.

## 9. Payment of Accounts

- 9.1 All payments for goods, supplies and services should be supported by an invoice or proper account. These will be checked in the section concerned before certification by the Chief Fire Officer or authorised officer. Certification by an authorised officer means:
- a. that the expenditure has been properly incurred, is legal and that there is relevant budget provision;
  - b. that the goods, supplies and services have been received or carried out, examined as to quantity and quality and approved;
  - c. that appropriate entries have been made in inventories or stores records;
  - d. that the prices, discounts and other allowances are correct;
  - e. that the payment is lawful and in accordance with the Authority's policy and instructions and complies with the Authority's Standing Orders and other regulations;
  - f. that the account is arithmetically correct;
  - g. that the account has not previously been paid; and
  - h. that VAT has been properly accounted for.



9.2 The authorised officer shall not be the person who ordered or received the goods and no officer shall certify an invoice or claim for reimbursement of expenditure to themselves.

9.3 The Chief Fire Officer/Treasurer shall ensure that all invoices, vouchers and other records are retained and stored in a secure way and are readily available for inspection by authorised persons.

#### 10. Payment of Salaries, Wages and Pensions

10.1 The payment of all salaries, wages, pensions, compensation and other emoluments to all employees or former employees shall be made under arrangements approved by the Chief Fire Officer.

10.2 The Chief Fire Officer shall ensure that the appointment of all employees is made in accordance with the regulations of the Authority, the approved budgets, grades and rates of pay.

10.3 The Chief Fire Officer shall maintain a record of authorised officers, and their signatures, able to certify relevant pay documents and time records.

#### 11. Income

11.1 The arrangements for the collection of all income due to the Authority shall be approved by the Chief Fire Officer/Treasurer.

11.2 An officer authorised to raise an account shall not be permitted to amend or cancel accounts raised by him/her.

11.3 Any amounts received by the Chief Fire Officer shall be maintained in a secure environment, and be banked promptly intact. Personal cheques may not be cashed out of money held on behalf of the Authority. On handing cash to another person, all officers shall ensure that they receive a suitable acknowledgement.

11.4 Each officer who banks money, must enter on the paying-in-slip the amount of each cheque and sufficient information to identify the transaction and enter on the reverse of each cheque sufficient detail to identify the section or establishment.

11.5 Every sum received by an officer of the Authority shall be acknowledged immediately by the issue of an official receipt, ticket or licence.

11.6 The write-off of an individual debt up to £2,000 may be authorised by the Treasurer. The write-off of debt in excess of £2,000, but not exceeding £5,000, shall be authorised by the Chief Fire Officer. Any debt write-offs above £5,000 must be presented to the Authority for approval if there are any.

A record of debts written off shall be maintained by the Treasurer and reported to the Authority at least once a year where over £2,000.

11.7 The Chief Fire Officer or Treasurer shall, at least once a year, review all fees and charges for services provided by the Authority.

12. Banking Arrangements

- 12.1 The Authority shall approve all banking contract terms and conditions, following advice from the Chief Fire Officer and the Treasurer.
- 12.2 All cheques shall be ordered on the authority of the Chief Fire Officer who shall make proper arrangements for their safe custody. Corporate credit cards and Government Purchasing cards may only be issued to the Chief Fire Officer or other officers with delegated authority.
- 12.3 Payments drawn on the Authority's main banking account shall bear the signature of the Treasurer and the Chief or Deputy Fire Officer.

13. Imprest Accounts

- 13.1 The Treasurer shall approve such imprest accounts as he/she considers appropriate to enable minor items of expenditure to be incurred.
- 13.2 Payments shall be supported by a receipted voucher. In particular vouchers will be required for all payments which include VAT.
- 13.3 Proper records of account shall be maintained by imprest holders in accordance with arrangements approved by the Chief Fire Officer. Regular claims for reimbursement shall be submitted.
- 13.4 No income received on behalf of the Authority may be paid into an imprest account but must be banked in accordance with instructions contained elsewhere in these regulations.
- 13.5 A certificate of the imprest account shall be provided on request by the Chief Fire Officer, and in any case, a certificate as at 31 March each year shall be provided by all imprest holders.
- 13.6 On leaving the employment of the Authority or ceasing to be entitled to hold an imprest, an officer shall account to the Chief Fire Officer for the full amount advanced to him or her.

14. Borrowing, Investments and Trust Funds

- 14.1 Approval of the Capital Programme and associated Treasury Strategy by the Authority shall constitute authority to borrow in respect of projects to be financed from loan.
- 14.2 There will be a Treasury Strategy and Treasury Management Practices (TMPs), based on the 'Treasury Management in Local Authorities Code of Practice and Guide for Chief Finance Officers' issued by CIPFA, which shall be reported to the Authority by the Treasurer.

- 14.3 The Treasurer shall recommend annual levels to the Authority and report on performance on the following, as detailed in the 2017 edition of the Prudential Code:
- a. Authorised Limit;
  - b. Operational Boundary;
  - c. Maturity Structure of Borrowing;
  - d. Capital Financing Requirements;
  - e. Ratio of Financing Costs to Net Revenue Stream;
- 14.4 The Treasurer, in consultation with the Chief Fire Officer, is authorised to borrow all monies within the approved borrowing limit, in the Authority's name, to meet its needs on the most economic terms, subject to the guidelines in the Treasury Policy and Strategy Statement including a prudent assessment of risk. Borrowing or lending or investing of monies not within delegated powers will not be permitted without the approval of the Authority.
- 14.5 The Treasurer, in consultation with the Chief Fire Officer, shall make arrangements for the investment and management of all trust and other funds, subject to the Authority's directions.
- 14.6 The Authority has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Code), and specifically adopts the key recommendations as described in Section 5 of the Code.
- 14.7 The Authority will create and maintain, as the cornerstones for effective treasury management:
- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
  - Suitable treasury management practices (TMPs), setting out the manner in which it will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this Fire and Rescue Authority. Such amendments will not result in the Authority materially deviating from the Code's key principles.
- 14.8 The Fire and Rescue Authority will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its year end, in the form prescribed in its TMPs.
- 14.9 The Fire and Rescue Authority delegates responsibility for the implementation and regular monitoring of its treasury management policies and the execution and

administration of treasury management decisions to the Treasurer, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

The Fire and Rescue Authority nominated the Corporate Services Policy and Challenge Group to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

15. Security of Assets

- 15.1 The Chief Fire Officer shall ensure that property security is maintained at all times for all vehicles, buildings, furniture, equipment, stocks, stores, cash etc under his/her control.
- 15.2 All securities, the property of, or in the name of the Authority or its nominees, and the title deeds of all property in its ownership shall be held in the custody of the Chief Fire Officer or the Authority's banker *or* under such other arrangements as are approved by the Chief Fire Officer.
- 15.3 Inventories shall be kept of all items of moveable furniture, equipment, vehicles and plant. Where appropriate security marking shall be used. The value of items to be included in an inventory shall be prescribed by the Chief Fire Officer.
- 15.4 The Chief Fire Officer is responsible for the receipt, care, safe custody and issue of stocks and stores. Stores records shall be kept in a form agreed by the Chief Fire Officer.
- 15.5 The Chief Fire Officer shall arrange for periodic independent checks and verification of stocks and recorded stores, at least once a year. No deficiency which occurs in excess of £10,000 shall be written off without the prior approval of the Authority. Variations below this figure may be written off by the Chief Fire Officer and Treasurer and the appropriate record of such action maintained.
- 15.6 Stocks shall generally be maintained at minimum levels consistent with operational requirements. A certificate of the value of stocks held as at 31 March each year shall be provided to the Treasurer.
- 15.7 Where equipment or materials become unusable or obsolete, the Chief Fire Officer may arrange for it to be written off. Where equipment or materials have a scrap value or resale value, disposal shall be at the best price obtainable following the approved procedure.
- 15.8 The Authority's property shall not be removed otherwise than in accordance with the ordinary course of business or used otherwise than for the Authority's purposes except in accordance with specific directions issued by the Chief Fire Officer.
- 15.9 Keys to safes and similar receptacles must be carried on the person of those responsible at all times. The loss of any such keys must be reported to the Treasurer immediately.

16. Estates

16.1 The Chief Fire Officer shall be responsible for maintaining a terrier of all properties owned by the Authority, recording the location, extent, plan reference, purchase details, nature of the interest, tenancies granted, rents payable, and purpose for which the property is held.

17. Protection Programme/Insurance

17.1 The Chief Fire Officer shall effect all necessary insurance cover, having taken advice from The Treasurer on the safeguarding of assets, and the assessment of risk, and negotiate all claims, in consultation with other officers where necessary.

17.2 All appropriate employees of the Authority shall be included in a suitable fidelity guarantee insurance.

17.3 The Treasurer shall, at least annually, review all insurances/protection programmes.

17.4 The Chief Fire Officer shall be responsible for carrying out a continual assessment of risk and shall take appropriate steps to ensure that potential liabilities are minimised.

18. Ex-Gratia Payments

18.1 The Chief Fire Officer may authorise ex-gratia payments up to £5,000 in a single transaction/payment. Ex-gratia payments in excess of £5,000 may be made with the approval of the Authority.

18.2 No ex-gratia payments in excess of £5,000 approved by the Authority shall be made without compliance with any statutory provision.

18.3 A complete record of ex-gratia payments made shall be maintained.

19. Travelling and Subsistence

19.1 All claims by employees for payment of car allowances shall be submitted in the on-line form and at such intervals as approved by the Chief Fire Officer. Payment of car allowances, and other travelling and subsistence allowances, will be made upon receipt of the appropriate form, duly certified by an authorised officer, through the payroll system.

19.2 Certification of a claim shall be taken to mean that the journeys were authorised and the expenses properly and necessarily incurred and that the allowances are properly payable by the Authority in accordance with nationally agreed rates.

20. Voluntary and Unofficial Funds

20.1 The Chief Fire Officer is responsible for ensuring that all voluntary and unofficial funds held, where money and/or assets are handled by an employee in the course of their employment or office, which have not been issued by the Authority, are properly administered and audited annually. Where cash is held in a bank account or building society account or such similar arrangements a record must be maintained and

approved by the Chief Fire Officer.

21. Annual Statement of Accounts

21.1 Each year an annual Statement of Accounts for the Service shall be prepared by the Treasurer, in consultation with the Chief Fire Officer, and shall be presented to the Authority for approval. The annual Statement of Accounts shall be completed as soon as practicable after the year end but no later than as prescribed in the regulations.

22. Breach

22.1 The Standing Orders/Financial Regulations apply to all Fire and Rescue Authority Members, Co-opted Members and officers, and employees and officers of the Fire and Rescue Service, where relevant.

22.2 It is the duty of Fire Authority Members, Co-opted Members and officers, and employees of the Fire and Rescue Service to ensure compliance with these Standing Orders/Financial Regulations, where applicable.

22.3 It is the responsibility of all Members and officers to familiarise themselves with the provisions of Standing Orders/Financial Regulations and for officers to take appropriate steps to bring them to the attention of their staff.

22.4 For employees/officers, a breach of the provisions of these Standing Orders/Financial Regulations may result in disciplinary action being taken in accordance with the Service's Disciplinary Procedure.

22.5 For Authority Members and Co-opted Members, a breach of the provisions of these Standing Orders/Financial Regulations could, depending on the circumstances, result in action being taken under the provisions of the Authority's Code of Conduct.

**LOCAL GOVERNMENT FINANCE ACT 1988**

**Section 112**

This Section places a duty on each Fire Authority to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers - that is the Treasurer to the Fire Authority - has the responsibility for the administration of these affairs.

**Section 114**

The Treasurer shall make a report under this Section if it appears to him/her that the Authority, Committee or officer of the Authority, or a Joint Committee on which the Authority is represented:

- a. has made or is about to make a decision which involves or would involve the Authority incurring expenditure which is unlawful;
- b. has taken or is about to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency on the part of the Authority; or
- c. is about to enter an item of account the entry of which is unlawful.

The Treasurer shall make a report under this Section if it appears to him/her that the expenditure of the Authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.

# THE ACCOUNTS AND AUDIT REGULATIONS 2015

## Extract

### PART 2

#### Internal control

#### **Responsibility for internal control**

3. A relevant authority must ensure that it has a sound system of internal control which—
- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
  - (b) ensures that the financial and operational management of the authority is effective; and
  - (c) includes effective arrangements for the management of risk.

#### **Accounting records and control systems**

- 4.—(1) Subject to paragraphs (3) and (4), and, in so far as they are not in conflict with those paragraphs, to any instructions given by a relevant authority to its responsible financial officer, that officer must determine, on behalf of the authority—
- (a) the form of its accounting records and supporting records; and
  - (b) its financial control systems.
- (2) The responsible financial officer for a relevant authority must ensure on behalf of that authority that the financial control systems determined by that officer in accordance with subparagraph
- (1)(b) are observed and that the accounting records of the authority are kept up to date.
- (3) The accounting records must, in particular, contain—
- (a) entries from day to day of all sums of money received and expended by the authority and the matters to which its income and expenditure or receipts and payments relate; and
  - (b) a record of the assets and liabilities of the authority.
- (4) The financial control systems determined in accordance with paragraph (1)(b) must include—
- (a) measures—
    - (i) to ensure that the financial transactions of the authority are recorded as soon as, and as accurately as, reasonably practicable;
    - (ii) to enable the prevention and the detection of inaccuracies and fraud, and the reconstitution of any lost records; and
    - (iii) to ensure that risk is appropriately managed;
  - (b) identification of the duties of officers dealing with financial transactions and division of responsibilities of those officers.

#### **Internal audit**

- 5.—(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- (2) Any officer or member of a relevant authority must, if required to do so for the purposes of



the internal audit—

- (a) make available such documents and records; and
  - (b) supply such information and explanations;
- as are considered necessary by those conducting the internal audit.

(3) In this regulation “documents and records” includes information recorded in an electronic form.

### **Review of internal control system**

**6.—(1)** A relevant authority must, each financial year—

- (a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and
- (b) prepare an annual governance statement;

(2) If the relevant authority referred to in paragraph (1) is a Category 1 authority, following the review, it must—

- (a) consider the findings of the review required by paragraph (1)(a)—
  - (i) by a committee; or
  - (ii) by members of the authority meeting as a whole; and
- (b) approve the annual governance statement prepared in accordance with paragraph (1)(b) by resolution of—
  - (i) a committee; or
  - (ii) members of the authority meeting as a whole.

(3) If the relevant authority referred to in paragraph (1) is a Category 2 authority, following the review it must—

- (a) consider the findings of the review by members of the authority meeting as a whole; and
- (b) approve the annual governance statement prepared in accordance with paragraph (1)(b) by resolution of members of the authority meeting as a whole.

(4) The annual governance statement, referred to in paragraph (1)(b) must be—

- (a) approved in advance of the relevant authority approving the statement of accounts in accordance with regulations 9(2)(b) or 12(2)(b) (as the case may be); and
- (b) prepared in accordance with proper practices in relation to accounts(a).

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For Publication

Bedfordshire Fire and Rescue Authority  
Audit and Standards Committee  
14 March 2019  
Item No. 12

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**REPORT AUTHOR:** CHIEF FIRE OFFICER

**SUBJECT:** WORK PROGRAMME 2018/19

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For further information on this report contact: Nicky Upton  
Democratic and Regulatory Services Supervisor  
Tel No: 01234 845149

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Background Papers: None

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Implications (tick ✓):

LEGAL			FINANCIAL	
HUMAN RESOURCES			EQUALITY IMPACT	
ENVIRONMENTAL			POLICY	
CORPORATE RISK	Known	✓	OTHER (please specify)	
	New		CORE BRIEF	

*Any implications affecting this report are noted at the end of the report.*

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**PURPOSE:**

To review and report on the work programme for 2018/19 and to provide Members with an opportunity to request additional reports for the Audit and Standards Committee meetings for 2019/20.

**RECOMMENDATION:**

That Members consider the work programme for 2018/19 and note the 'cyclical' Agenda Items for each meeting in 2019/20.

**PAUL FULLER CBE QFSM MStJ DL  
CHIEF FIRE OFFICER**



**AUDIT AND STANDARDS COMMITTEE - PROGRAMME OF WORK 2019/20**

<b>Meeting Date</b>	<b>'Cyclical' Agenda Items</b>		<b>Additional/Commissioned Agenda Items</b>	
	<b>Item</b>	<b>Notes</b>	<b>Item</b>	<b>Notes</b>
10 July 2019	<ul style="list-style-type: none"> <li>• Election of Vice Chair</li> <li>• Review of Terms of Reference</li> <li>• Annual Audit Fees 2019/20</li> <li>• Internal Audit Annual Report 2018/19 (RSM)</li> <li>• Internal Audit Progress Report 2018/19 (RSM)</li> <li>• Audit Results Report (E&amp;Y) (Results of 2018/19 audit including any matters outstanding)</li> <li>• Draft 2018/19 Annual Governance Statement, Statement of Accounts and Letter of Representation</li> <li>• Audit and Governance Action Plan Monitoring</li> <li>• Review of Code of Conduct and Annual Report on Standards</li> <li>• Corporate Risk Register</li> <li>• Work Programme 2019/20</li> </ul>			

## AUDIT AND STANDARDS COMMITTEE - PROGRAMME OF WORK 2019/20

Meeting Date	‘Cyclical’ Agenda Items		Additional/Commissioned Agenda Items	
	Item	Notes	Item	Notes
XX Sept 2019	<ul style="list-style-type: none"> <li>• Internal Audit Progress Report</li> <li>• External Audit Progress Report</li> <li>• Audit and Governance Action Plan Monitoring</li> <li>• Review of the Fire Authority’s Effectiveness</li> <li>• Corporate Risk Register</li> <li>• Work Programme 2019/20</li> </ul>			

**AUDIT AND STANDARDS COMMITTEE - PROGRAMME OF WORK 2019/20**

<b>Meeting Date</b>	<b>'Cyclical' Agenda Items</b>		<b>Additional/Commissioned Agenda Items</b>	
	<b>Item</b>	<b>Notes</b>	<b>Item</b>	<b>Notes</b>
X December 2019	<ul style="list-style-type: none"> <li>• Internal Audit Progress Report</li> <li>• Audit and Governance Action Plan Monitoring</li> <li>• Review of 'Monitored Policies'</li> <li>• Report on Registration of Interests and Gifts/Hospitality</li> <li>• Review of the Audit and Standards Committee Effectiveness (2019/20 and then bi-annual)</li> <li>• Corporate Risk Register</li> <li>• Statement of Assurance</li> <li>• Work Programme 2019/20</li> <li>• Annual Review of the Effectiveness of the Internal Audit Arrangements</li> </ul>			



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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