Bedfordshire Fire and Rescue Authority

Provisional Audit results report

Year ended 31 March 2020

26 June 2020

Private and Confidential 26th June 2020

Dear Audit and Standards Committee Members

Please find attached our provisional audit results report for the forthcoming meeting of the Audit and Standards Committee. This report summarises our current audit status and also addresses the changes in audit risks as a result of the Covid-19 pandemic in relation to the audit of Bedfordshire Fire & Rescue Authority for the 2019/20 financial year. This follows our audit planning report in March 2020 which is also included in the agenda papers for this meeting.

The planning of our audit strategy and risk assessment was completed prior to the unprecedented events of the Covid-19 outbreak and social distancing measures introduced in the United Kingdom from the end of March 2020. We have revisited and adapted our audit approach and working practices to take account of the implications and risks from Covid-19, as we see them, for the preparers of financial statements and auditors for Fire and Rescue Authorities. In recognition of the unprecedented circumstances with Covid-19 for preparers of financial statements and external auditors, MHCLG have provided flexibility to Fire and Rescue bodies on the timetable for the preparation of draft accounts (by the end of August 2020), the public inspection period (by September 2020) and the target date for publication of audited financial statements (by end of November 2020). It is a credit to the Fire and Rescue Authority that we received a unaudited set of financial statements before the end of May 2020 and have been able to make progress on our external audit since.

Since the considering the implications of Covid-19 on the Authority's financial reporting and financial viability, we are undertaking additional audit procedures in relation to the valuation of Property, Plant & Equipment and our assessment of management's assertions and disclosures associated with preparing the accounts as a going concern in accordance with the Financial Reporting Council's Statement of Recommended Practice Note 10 for audit of public sector bodies in the United Kingdom.

At our meeting on the 2 July 2020, we will provide an update on the current status of our audit, outstanding matters and agree with management and this committee the governance procedures required to consider our final audit results report, proposed audit opinion, schedule of adjustments and unadjusted items, management representations and the authorisation of the 2019/2020 audited financial statements for publication.

This report is intended solely for the use of the Audit and Standards Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent. At our meeting on the 2 July 2020, we will provide an update on the current status of our audit, outstanding matters and agree with management and this committee the governance procedures required prior to the 2019/2020 financial statements being authorized for issue

We would like to thank your staff for their help during the engagement. We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 2 July 2020.

Yours faithfully

Neil Harris, Associate Partner, For and on behalf of Ernst & Young LLP

01 Executive Summary

Executive Summary

Scope update

In our audit planning report prepared for the Audit and Standards Committee meeting (included with this paper), we provided you with an overview of our audit scope and approach for the audit of the financial statements and Value for Money Conclusion. We are undertaking our audit in accordance with this plan, with the following exceptions noted below.

Changes in Materiality

- We updated our planning materiality assessment using the draft 2019-2020 accounts. Our materiality measure was in relation to gross expenditure on provision of services. We have updated our overall materiality assessment to £733k (Audit Planning Report – £732k). This results in updated performance materiality, at 75% of overall materiality, of £549k (£542k), and an updated threshold for reporting misstatements of £37k (£36k).
- We also updated our materiality in respect of the Firefighters' Pension Fund Accounts. Based on our materiality measure using Benefits Payable, we have updated our overall materiality assessment to £168k (Audit Planning Report – £157k). This results in updated performance materiality, at 75% of overall materiality, of £126k (£118k), and an updated threshold for reporting misstatements of £8.4k (£7.8k).

Impact of Covid-19 on the audit

- We have considered those elements of the financial statements and accounting judgements made by management which may be impacted by Covid-19. Specifically we have identified further risks in relation to the following areas:
    - Going Concern – There is a higher risk in relation to the uncertainty over the form and extent of future government support which may affect the going concern basis.
    - Valuation of Property, Plant & Equipment – There may be a significant impact on the estimations and assumptions applied to asset valuations, especially in circumstances where a 'material uncertainty' has been reported within the valuation reports. We have also increased our audit risk to significant because the Authority has brought forward its full valuation to the 2019-2020 financial year. We have engaged our real estates specialists to review NPSs methodology and assumptions supporting the valuations. This includes reviewing the valuation assumptions for a representative sample of seven properties.

Working practices and audit timeline

The disruption caused by Covid-19 had a limited impact on management's ability to produce the financial statements by the commencement of the audit. We did experience a one week delay at the commencement of the audit in obtaining reconciled data analytics to enable us to select samples for our substantive audit testing. This has been resolved though during the course of the audit. For a brief period, this did impact our ability to complete the audit to the original planned timetable of this meeting but this position needs to be put into context that the Fire Authority audit is one of the first ones to be scheduled in the programme of audits for the 2019-2020 financial year, and significantly ahead of MHCLG reporting timetables this year. Due to the introduction of social distancing measures, we have expected that it may, for example, be more difficult than usual to access the supporting documentation necessary to support our audit procedures. There will also be additional audit procedures we have to perform to respond to the additional risks caused by the factors noted in the following slides. In addition we have also noted the following changes as a result of Covid-19 which have impacted the accounts timetable:

- MHCLG have changed the financial reporting dates for local authorities in light of Covid-19. The Authority is now required to publish its draft statements by the 31 August (from 31 May) and publish audited accounts (where they have been audited) by 30 November (from 31 July).
- Auditor's report - Following the introduction of social distancing measures, all audit firms implemented a moratorium on the majority of their auditor reports. Whilst the moratorium was lifted in mid-April, because of the ongoing uncertainty Covid-19 presents to the material accuracy of financial statements, the firm (in common with other firms) has introduced a rigorous consultation process for all proposed auditor reports, in particular disclosures associated with going concerns and events after the reporting period.

Executive Summary

Impact on the audit of COVID-19

The COVID-19 pandemic has had a significant impact on the business and our audit procedures have addressed the increased risks and issues which have emerged as a result in the following areas:

COVID-19 impact on the audit

Alternatives to hard-copy evidence

There is an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity. To address this risk we will use the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we're auditing; and agree IPE to scanned document or other system screenshots.

New significant risk(s)

We identified a new significant risk in relation to the valuation of PPE which are valued based on market conditions, such as fair value or EUV.

Going concern

Going concern was an area of increased audit focus this year and was noted as planning as a higher risk for compliance with ISA 570

Working practices and audit timeline

Reporting announcement date deferred to ensure adequate time for the Authority to properly consider the new disclosures relating to COVID-19 and also to enable sufficient time for auditor to perform additional procedures and complete documentation of work before sign off of opinion.

Materiality & audit scope

Our final materiality thresholds have been reviewed to ensure these still remain appropriate

Phyical asset verification

We adapted our approach to comply with social distancing protocols. We have made use of alternative procedures such as photographs of assets and use of Google Maps.

Events after balance sheet date

We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needs to reflect the specific circumstances of the Authority.

Revised guidance for AGS

We will review these documents to confirm compliance with revised AGS disclosure requirements.

Additional EY consultation requirements

We will comply with internal EY consultation requirements relating to any modifications to the audit report and in particular in relation to the adequacy of consideration of going concern assessment and disclosures.

Areas of Audit Focus – changes since our audit planning report (March 2020)

Going concern

Going concern disclosures (higher inherent risk)

What is the risk?

Covid-19 has created a number of financial pressures throughout public sector bodies. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19. This results in significant judgement to conclude whether events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Authority's ability to continue as a going concern. This judgement will determine the appropriate disclosures to be made in the financial statements, which will be reflected in the audit report.

What is the risk/area of focus?

There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.

However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Authority's assessment will also need to cover this period.

Going concern (continued)

What will we do?

In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of future government support, we will be seeking a documented and detailed consideration to support management's assertion regarding the going concern basis and particularly with a view whether there are any material uncertainties for disclosure.

We will review your going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We will consider whether you have included necessary disclosures regarding any material uncertainties that do exist.

We will consider whether these disclosures also include details of the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions (e.g. assumed duration of Covid-19).

Our audit procedures to review these will include consideration of:

- Current and developing environment;
- Liquidity (operational and funding);
- Mitigating factors;
- Management information and forecasting;
- Sensitivities and stress testing; and
- Challenge of management's assessment, by thorough testing of the supporting evidence and consideration of the risk of management bias

Areas of Audit Focus – changes since our audit planning report in March 2020

Property, Plant & Equipment (Valuation) – New Significant Risk

Significant Risk: (change to previous inherent risk)

Valuation of property plant and equipment (PPE) assets valued at fair value or EUV

What is the risk?

The value of property, plant and equipment represent significant balances in the Authority's accounts and are subject to valuation changes and impairment reviews. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What is the risk/area of focus?

the value of property, plant and equipment was £38,923k.

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

Following the Covid-19 outbreak in March 2020, there is potential for significant impact on the estimations and assumptions applied to asset valuations with qualified valuers reporting 'material uncertainty' within valuation reports.

This impacts, in particular, on PPE valued at fair value due to the uncertainty over the future of rental income and predicted yields.

In addition, the Authority has brought forward its full valuation of assets to the 2019-2020 financial year, which is being undertaken by Norfolk Property Services (NPS) group. A full valuation can increase the risk of material misstatements from any changes to estimation techniques, judgements and assumptions.

What will we do?

Our approach will focus on:

- Considering the work performed by the valuer (NPS) over the Authority's assets, 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 valuer in performing their valuation, and agreeing this to what has been recorded in the fixed asset register and general ledger;
- Considering if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; and
- Testing accounting entries have been correctly processed in the financial statements.

Additional procedures in response to our risk due to Covid-19 and full valuation of assets by NPS group:

We are completed our work in the following areas:

- Review the Authority's assessment of valuations carried out to assess the material accuracy of the values reported as at the 31/03/2020;
- Assessing the Authority's asset base by type of asset and valuation methodology, as the impact of Covid-19 on valuations is likely to be more significant for assets valued at fair value on the basis of data from market transactions;
- Ensure the appropriate disclosure has been made in the accounts concerning any material uncertainty relating to year end valuations;
- Consider and address the comments in EY Real Estates review of asset valuation methodologies adopted by NPS group; and
- Considering the results of our EY Real Estates team review a representative sample of seven properties and if we need to gain additional assurance over these balances.

Changes since our audit planning report in March 2020 – impact of COVID-19

Impact of COVID-19 on other audit areas

The ongoing disruption to daily life and the economy as a result of the Covid-19 virus will have a pervasive impact upon the financial statements. Understandably, the priority for the Authority to date has been to ensure the safety of staff and the delivery of business critical activities, including mutual aid to other essential public services. However, the financial statements will need to reflect the impact of Covid-19 on the Authority's financial position and performance. Due to the significant uncertainty about the duration and extent of disruption, at this stage we have not identified specific risks related to Covid-19, but wish to highlight the wide range of ways in which it could impact the financial statements. These may include, but not be limited to:

Area	Impact
Revenue recognition and impairment of receivables.	There may be an impact on income collection (council tax and business rates) if businesses and residents are unable to work and earn income due to the lockdown and restriction of movement due to Covid-19. There may also be an increase in amounts written off as irrecoverable and impairment of year-end balances due to the increased number of businesses and residents unable to meet their financial obligations.
Tangible asset valuations	There may be impairment of tangible assets such as land and buildings if future service potential is reduced by the economic impact of the virus. The Authority may also have already incurred capital costs on projects where the economic case has fundamentally changed.
Holiday and sickness pay	The change in working patterns may result in year-end staff pay accruals which are noticeably different to prior years.
Government support	Any Covid-19 specific government support is likely to be a new transaction stream and may require development of new accounting policies and treatments.
Pension liability valuation	An additional consideration in 2019/20 will be the impact of Covid-19 on the valuation of complex (Level 3) investments held by Bedfordshire Pension Fund (for example private equity investments) where valuations as at 31 March 2020 will have to be estimated. This is likely to impact on the IAS19 reports provided by the actuary and the assurances over asset values that are provided by the pension fund auditor, and consequently the assurance we are able to obtain over the net pension liability in the Authority's accounts. Depending on the level and type of Level 3 investments held, we may need to undertake additional procedures to support the estimates of the valuation of these asset as at 31 March 2020. Our work on the Bedfordshire Pension Fund is ongoing at the date of this meeting. We will also need to consider the outcome of the assurances we receive from the Pension Fund auditor and undertake additional procedures as required. In addition, every three years, a formal valuation of the whole fund in carried out in accordance with the LGPS Regulations 2013 to assess and examine the ongoing financial position of the fund. The IAS19 report for 2019/20 will reflect the updated membership numbers provided for this triennial valuation. We will therefore need to seek additional assurances from the Pension Fund auditor over this data.
Annual Governance Statement	The widespread use of home working is likely to change the way internal controls operate. The Annual Governance Statement will need to capture how the control environment has changed during the period and what steps were taken to maintain a robust control environment during the disruption. This will also need to be considered in the context of internal audit's ability to issue their Head of Internal Audit opinion for the year, depending on the ability to complete the remainder of the internal audit programme.

Status of the audit as at 26th June 2020

Status of the audit

Overview of progress as at 26th June 2020

We commenced our audit of the Authority's 2019-2020 financial statements at the end of May 2020. At the date of this meeting, we have made good progress on several areas of our audit and the performance of audit procedures outlined in our Audit planning report and this addendum. We will provide a verbal update on the latest position at the date of this meeting. The Authority is very well placed to meet the extended timetables for the publication of audited 2019-2020 financial statements at the end of November 2020. We do recognise the steps the Authority took to prepare an unaudited set of financial statements before the end of May 2020.

We would like to thank the finance team at the Authority for the cooperation and assistance we have received during the course of the audit. It is fair to say that the external audit of the Authority's 2019-2020 accounts has taken a longer than all parties originally expected. There are several factors that have led to this, including:

- Additional procedures and enquiries required as a result of Covid-19 which remain ongoing at the date of this meeting. This report summarises why this is the case, which impacts specifically with our work on valuations, the nature, timing and extent of pension fund assurances, review and consultation processes associated with disclosures on any material uncertainties disclosed with valuations, documented basis for going concern and events after the reporting period.
- A one week delay in receiving completed analytics so that we can select samples for substantive testing at the very start of our year-end audit. This is said in the context that the Authority did ensure analytics data was provided to the audit team before the end of May 2020.
- A more protracted process on both sides in agreeing expectations on the level of information and supporting evidence required for audit. It is difficult to say whether the impact of social distancing measures has contributed to this but there has not been as frequent discussions on both sides that could have resolved queries and expectations more efficiently.
- Whilst we have provided sufficient and appropriate audit resources relative to the risk profile of the Authority, we do recognise that there have been changes in team members (new Audit Manager and new Audit Senior) compared to the prior year audit which has required additional time on familiarity and coaching, exacerbated by the impact of remote working. We also are cognisant of the resource constraints that the Authority has as it continues to respond to business critical priorities and mutual aid to other public sector partners.
- This will be first year that the Authority, with the support of your valuer, have been responding to questions and queries arising from a specialist review in to the Authority's valuation of property, plant and equipment. We have triggered a specialist review because of the full valuation of assets this year. We are still in the process of resolving ongoing questions and queries on the valuer's methodology to support depreciation values (based on the age of buildings) and land values (relative to the economic area in which the assets sit). To date, this is the most significant matter to resolve prior to completing our audit and our proposed audit opinion.

Because of these factors, we will not be in a position of completing our external audit by the time of the Authority meeting on the 2nd July 2020 but wish to reiterate the relatively positive position the Authority is in at this point. To date, we have no significant agreed adjustments or unadjusted items to bring to your attention. We are working with the Authority's finance team and your valuers to resolve outstanding queries, matters arising and remaining audit procedures during the course of July 2020. To continue to safeguard our audit quality, we continue to have secured the appropriate level of resources, including specialist time, to complete our audit procedures, and to enable the remaining review and consultation procedures to be completed by the Engagement Lead and Audit Manager.

We recommend the Audit and Standards Committee at its meeting on the 2nd July 2020 agree the governance procedures necessary to receive our final audit results report, schedule of agreed adjustments, unadjusted items, management representations, our proposed audit opinion and the final audited financial statements to approve publication.

Status of the audit as at 26th June 2020

Status of the audit

Summary of outstanding audit procedures as at 26th June 2020. We are aware that by the time this report is circulated, the Authority's finance staff intend to respond to as many of the list of outstanding audit requests. We will need to consider those responses. Subject to our review of the Authority's responses to our ongoing audit queries, we anticipate that by the time of the Committee meeting on 2nd July 2020, the substantive areas that will be outstanding are a) PPE valuations; b) Pension Fund assurances and IAS19 audit procedures; and c) Review and completion of audit procedures on updated Covid-19 disclosures.

- Receipt of outstanding working papers and/or revised statements and disclosures, and thereafter the completion of audit procedures. These include the Movement in Reserves (MiRS), Note 2. Adjustments between accounting basis and funding basis under regulations, Cash Flow Statement, and Collection Fund.
- Completion of Income and expenditure testing – Proof of payment for the remaining sample selected has been requested from the Authority to enable us to complete our audit procedures.
- Employee costs – We need to update our interim work for the year-end testing of starters/leavers.
- IAS19 procedures on the pension disclosures – We need to receive and consider the following:
  - Response from the Bedfordshire Pension Fund auditor whose audits are currently underway.
  - EY review of the PWC report on the actuary.
- PPE valuations work – We wish to still resolve ongoing queries with the Authority and your valuer to support the asset values of the representative sample of properties which were reviewed by our real estates team. The matters to resolve are the following:
  - The levels of depreciation adopted appear to be inconsistent based on the information provided and the age of various buildings in the sample.
  - The land values appear to be lower than expected based on the market in which the sampled assets are found.
- Covid-19 disclosures. We will need to complete additional procedures to review the Authority's documented consideration and proposed disclosures, covering a) any material uncertainties on valuations; b) events after the reporting period; and c) going concern. This also includes any consultations required on the proposed disclosures and implications for our audit report.
- Subject to our additional work on the going concern assertions, we will then be in a position to complete our Value for Money conclusion work as this reflects our assessment of the Authority's financial resilience.
- Ongoing and final review procedures completed by the Engagement Lead and Engagement Manager.
- Review of the final version of the financial statements.
- Completion of subsequent events review.
- Receipt of the signed management representation letter.

Update on proposed 2019-2020 audit fees since the audit planning report

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2019/20 accounts of opted-in principal local government, fire and rescue 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. A breakdown of our fees is shown below.

	Planned fee 2019/20	Final Fee 2018/19
	£'s	£'s
Current Scale Fee – Code work	23,271	23,271
Increase in scale fee/scale fee variation	Note 1-2	30,939
Total fees (excl. VAT)	TBC	54,210

As reporting in our Audit Plan, the agreed fee presented is based on a number assumptions which include the timing of agreed deliverables being met; unqualified financial statement opinion and VfM conclusion; and quality documentation being provided and controls being effective.

If any of these assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Authority in advance before submission to the PSAA for approval.

In our audit planning report, included alongside this report, we set out the range of factors which we believe impact on the sustainability of the audit fee set by PSAA. These factors were also reported in a national letter issued by EY to Chief Financial Officers and Chair of Audit Committees in February 2020. These factors are reported in pages 33 to 34 of our audit planning report and remain extant at the date of this meeting. The External Audit engagement lead has had a discussion with the Authority's Chief Financial Officer on the implications of these factors on our assessment of your baseline fee to deliver a sustainable high-quality external audit.

Our assessment is that the scale fee for the Fire and Rescue Authority should be increased from £23,271 to £50,021 based on an expected number of 941 hours at mixed grades. This assessment is before considering the implications of COVID-19 on our audit procedures.

Note 1 – The proposed increase to the scale fee to £50,021 reflects the increased risk and complexity facing all public sector bodies, adjusted for our knowledge and risk assessment for this Authority (£11,000) as well as the changes and incremental increase in regulatory standards (£14,000). We have also adjusted the baseline fee to reflect our current assessment of the Authority's readiness for audit, including data analytics, quality of working papers (£1,750). The proposed increase in the baseline fee is relatively consistent with other Fire and Rescue Authorities of a similar size, risk profile and complexity that EY audits.

Note 2 - Work undertaken by EY specialist (Real Estates) responding to the specific scope change from the full valuation of assets in the 2019-2020 financial year. This scope change has not been reflected in the baseline fee as this will not be recurring in future years. In addition, the impact of Covid-19 on the audit and VfM conclusion will also impact the work that is required to be done. As we near the conclusion of the audit, we will be in a position to quantify the impact of these additional procedures and where we propose a variation to the Authority's scale fee.

On both points, we will continue to discuss and share with the Chief Financial Officer our assessment of the audit fees required to safeguard audit quality and our professional standards. We will also report our proposed final position in the Audit Results Report to the Audit and Standards Committee.

We intend to report to PSAA at this stage our assessment of the changes required to the baseline fee from £23,271 to £50,021. In doing so, we will notify PSAA whether the Authority agree, partially agree or do not agree with our assessment. PSAA are ultimately responsible for determining the scale fee and any variations to it.

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