

Audit Progress Report

North Yorkshire Police, Fire and Crime
Commissioner Fire and Rescue Authority

March 2021



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Section 01:
Audit Progress

Audit Progress

Purpose of this report

This report provides the Independent Audit Committee with an update on progress in delivering our responsibilities as your external auditors. It will be presented to the Committee on 16 March 2021.

2019/20 Audit

We completed our external audit of the Authority's 2019/20 financial statements and value for money conclusion in November 2020, signing the audit report on 27 November 2020. We presented our follow up letter to our Audit Completion Report on 15 December 2020 to this committee.

We are presenting the Annual Audit Letter as a separate agenda item to the Committee on 16 March 2021, representing the final conclusion of the 2019/20 audit.

2020/21 Audit

We have progressed our audit planning for the 2020/21 audit and will also present our Audit Strategy Memorandum as a separate agenda item to the Committee on 16 March 2021. We have held regular discussions with the Authority's senior management team and these help us to keep up to date with emerging issues that may impact on our external audit.

We reported during 2019/20 that the National Audit Office had updated their Code of Audit Practice and that this new Code applies from the 2020/21 audit. The new Code changes the work that auditors will be required to do, and the related reporting, on the Authority's arrangements to deliver value for money in their use of resources. We summarise the impact of these changes in our Audit Strategy Memorandum.

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Section 02:

National Publications

National Publications

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National Audit Office				
1	Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19.	June 2020	Guidance for audit committee members	9
2	Local auditor reporting application	December 2020	Data on local auditor reporting presented through an interactive map	9
CIPFA				
3	Financial Scrutiny Practice Guide	June 2020	Guidance for audit committee members	10
4	A Guide to Local Authority and Public Sector Asset Management	November 2020	Asset management guidance	10
Home Office				
5	Fire and Rescue National Framework; 2020 Progress Report	July 2020	Report on fire and rescue authorities compliance with the national framework.	11
6	Fire and Rescue Incident Statistics, England : Year-ending 31 March 2020	August 2020	Comparative data	11
7	Fire Prevention and Protection Statistics, England : Year-ending 31 March 2020	September 2020	Comparative data	11
8	Public Service Pension Schemes Guidance	September 2020	Consultation on the Remedy to McCloud / Sergeant litigation	12
9	Detailed Analysis of Fires Attended by Fire and Rescue Services in England,	October 2020	Comparative data	12

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	Publication/update		Key points	Page
Home Office (Continued)				
10	Fire safety	October 2020	Consultation on reforms in response to Grenfell tower Enquiry	12
11	Fire and Rescue Workforce and Pensions Statistics, England: 2019/20	October 2020	Comparative data	12
12	Fire and Rescue Authority Financial Reserves, March 2019	November 2020	Comparative data	12
MHCLG				
13	Local Authority Financial Reporting and external audit: independent review	September 2020	The Redmond report	13
14	Local authority financial reporting and external audit: government response to the Redmond review	December 2020	MHCLG's response to Sir Tony Redmond's independent review	13
PSAA				
15	Quarterly Quality Monitoring Report for the financial year 2021-22: Q2	September 2020	PSAA Audit Quality report	14
Financial Reporting Council				
16	Local Audit Inspections	October 2020	FRC Audit Quality report	15

National Publications (Continued)

	Publication/update		Key points	Page
HM Inspectorate of Constabulary, Fire and Rescue Services				
17	Responding to the pandemic: the fire and rescue service's response to the COVID-19 pandemic in 2020	January 2021	National inspection report plus a letter in respect of the thematic inspection of each fire and rescue authority.	16

NATIONAL PUBLICATIONS

National Audit Office

1. Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19, June 2020

The National Audit Office's (NAO) guide sets out that audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, making it more difficult for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.

This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on:

- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

In each section of the guide the NAO has set out some questions to help audit and risk committee members understand and challenge activities. Each section can be used on its own, although we would recommend that members consider the whole guide, as the questions in other sections may be interrelated.

The guide may also be used as members consider reporting in the 2020-21 period when more specific and detailed reporting on the outbreak will be required.

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

2. Local auditor reporting application, December 2020

'*The local auditor reporting application*' presents the opinions of local auditors on local public bodies' financial statements and conclusions on whether they have proper arrangements in place to secure value for money. The data is presented through an interactive map which allows users to explore auditor reporting for nine different types of local body and two different audit years. The interactive map also contains pop-ups to enable users to access further information about the body, such as the local auditor's report or annual audit letter.

<https://www.nao.org.uk/other/local-auditor-reporting-application/>

NATIONAL PUBLICATIONS

CIPFA

3. Financial Scrutiny Practice Guide, June 2020

The impact of the COVID-19 pandemic on local authority finances and uncertainty regarding the delayed fair funding review on top of a decade of progressively more significant financial constraints has placed local government in a hugely challenging position. Accordingly, CIPFA state that for the foreseeable future, local authority budgeting will be even more about the language of priorities and difficult choices than ever before.

In response CIPFA have produced guidance proposing ways to move budget and finance scrutiny beyond set-piece scrutiny 'events' in December and quarterly financial performance scorecards being reported to committee. Effective financial scrutiny is one of the few ways that local authorities can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

<https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide>

4. A Guide to Local Authority and Public Sector Asset Management, November 2020

This step by step guide to asset management in the public sector has been produced by CIPFA Property. It takes the reader on the asset management journey, from the development of strategic asset management policies and strategies designed to deliver corporate objectives through to the development, implementation, challenge and review of asset management practices and portfolios.

<https://www.cipfa.org/policy-and-guidance/publications/a/asset-management-in-the-public-sector-a-practitioners-guide>

NATIONAL PUBLICATIONS

Home Office

5. Fire and Rescue National Framework; 2020 Progress Report, July 2020

The report notes that each FRA in England has provided sufficient assurance that it is acting in accordance with the National Framework and material has been provided to demonstrate this including:

- assurance statements and, where appropriate, other documentation such as Integrated Risk Management Plans (IRMPs), governance statements and other operational and financial information (prepared by FRAs) for the period under review; and
- each FRA has provided assurance to their community on financial, governance and operational matters.

The Home Office also carried out an examination of a sample of FRA assurance statements to seek evidence that authorities have complied with the framework and to review their IRMPs and financial plans.

The Secretary of State confirmed satisfaction (based on the Home Office's assessment of assurances provided) that every FRA in England had acted in accordance with the requirements of the framework and so no formal steps had been taken to secure compliance since the last assurance in 2018.

<https://www.gov.uk/government/publications/fire-and-rescue-national-framework-2020-progress-report>

6. Fire and Rescue Incident Statistics, England : Year-ending 31 March 2020, August 2020

The report shows that in 2019/20 fire and rescue authorities attended 16% fewer fires than in 2018/19, although most of this reduction was due to secondary fires being unusually high in the relatively hot summer of 2018. The report also notes deaths and injuries fell slightly, the former to their lowest level recorded and 29% lower than ten years ago.

<https://www.gov.uk/government/statistics/fire-and-rescue-incident-statistics-england-year-ending-march-2020>

7. Fire Prevention and Protection Statistics, England : Year-ending 31 March 2020, September 2020

This report illustrates the continuing decline in the number of home fire safety checks performed since the peak in 2010/11, three per cent year on year and 25% over the ten year period. However, the percentage of households owning a working smoke alarm has continued to increase and has now reached 91%.

<https://www.gov.uk/government/statistics/fire-prevention-and-protection-statistics-england-april-2019-to-march-2020>

NATIONAL PUBLICATIONS

Home Office

8. Public Service Pension Schemes Guidance, September 2020

This consultation, which ended in October 2020 sets out options for how the Government will remove the discrimination against some younger pension scheme members identified in the McCloud / Sergeant judgements. These options involve providing members with a choice of which set of pension scheme benefits, those under their old scheme or the new scheme, they would like to receive for the remedy period and whether to make that choice immediately or defer it until retirement. The Government is expected to publish its response and final policy decision shortly.

<https://www.gov.uk/government/publications/public-service-pension-schemes-guidance>

9. Detailed Analysis of Fires Attended by Fire and Rescue Services in England, October 2020

The report shows that cooking fires represented about half of accidental dwelling fires but smoking fires, which only represented seven per cent of the total were more likely to result in fatality. Elderly men were more likely to be casualties than women and younger people.

<https://www.gov.uk/government/collections/fire-statistics-great-britain>

10. Fire safety, October 2020

The fire safety consultation, published alongside the draft Building Safety Bill, is key part of government's package of reform to improve building and fire safety in all regulated premises and to deliver key Grenfell Tower Inquiry recommendations. It closed in October 2020. If enacted, the Bill will require building control bodies to consult with Fire and Rescue Authorities and share fire safety information.

<https://www.gov.uk/government/consultations/fire-safety>

11. Fire and Rescue Workforce and Pensions Statistics, England: 2019/20, October 2020

This report shows that the number of full time firefighters has remained almost constant for three years. Seven per cent of firefighters are now female, compared to less than five per cent five years ago.

<https://www.gov.uk/government/statistics/fire-and-rescue-workforce-and-pensions-statistics-england-april-2019-to-march-2020>

12. Fire and Rescue Authority Financial Reserves at March 2019, November 2020

This report illustrates that fire and rescue authorities held reserves equivalent to 39% of core spending power at 31 March 2019. North Yorkshire Police Fire and Crime Commissioner Fire and Rescue Authority's reserves were below average, at 20%.

<https://www.gov.uk/government/publications/fire-and-rescue-authority-financial-reserves-march-2019>

NATIONAL PUBLICATIONS

MHCLG

13. Local Authority Financial Reporting and external audit: independent review, September 2020

This independent review, led by Sir Tony Redmond at the invitation of the Ministry of Housing, Communities and Local Government, considered the effectiveness of external audit and transparency of financial reporting in local authorities. The Redmond Report concluded that audit fees were at least 25% lower than is required to fulfil current local audit requirements effectively. Audit fees in the local authority sector have fallen significantly over the last five years, whereas audit fees in other sectors have significantly risen although audit suppliers have sought to bridge the gap with increasing fee variations, which averaged eight per cent in 2018/19. The report also suggests local authority accounts are currently too complex to make audit completion by 31 July feasible.

Redmond makes a number of recommendations in relation to:

- external audit regulation
- smaller authorities audit regulation
- financial resilience of local authorities
- transparency of financial reporting

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

14. MHCLG's response to Sir Tony Redmond's independent review, December 2020

MHCLG has published its response to Sir Tony Redmond's Independent review into the oversight of local audit and the transparency of local authority financial reporting. The Redmond Review made 23 recommendations relating to the quality, timeliness and sustainability of local audit, and the transparency of local authority accounts. The department has grouped its response into 5 themes, which are summarised in Annex A to the response.

Amongst the responses MHCLG confirmed that they intend to amend existing regulations to extend the deadline for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years). At the end of this period they will review whether there is a continued need to have an extended deadline.

They also confirmed that they did not intend to create an Office of Local Audit and Regulation (OLAR) stating in their response that they “do not wish to re-create the costly, bureaucratic and over-centralised Audit Commission”. They added that they “will commit to explore the full range of options as to how best to deliver Sir Tony's finding that a ‘system leader’ is required. This will include close consideration of whether existing bodies could take on this function.”

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review/local-authority-financial-reporting-and-external-audit-government-response-to-the-independent-review>

NATIONAL PUBLICATIONS

Public Sector Audit Appointments Limited

15. Quarterly Quality Monitoring Report for the financial year 2021-22: Q2, September 2020

Under the transitional arrangements, which followed the abolition of the Audit Commission, PSAA were responsible for monitoring the quality of the work undertaken by the audit suppliers at principal bodies. PSAA published the last report under these transitional arrangements in Autumn 2019 and Mazars received an overall amber rating, which matched the '*combined regime*' score across the 5 suppliers. This was slightly disappointing as in 2018 Mazars had been the only supplier awarded a green rating and the downgrading reflected weaknesses in the approach to auditing Property, Plant and Equipment and Pensions, which were common across suppliers.

PSAA explain in their latest quality monitoring report that they have appointed the Financial Reporting Council (FRC) and Institute of Chartered Accountants in England and Wales (ICAEW) to review audit quality from 2018/19 onwards and the results will be published in their 2020 Annual Monitoring Report, during 2021. However, they have continued to monitor delivery of local authority engagements and report any non-compliance with the terms of appointment.

The report indicates that in 2018/19 43% of local authority audits were not delivered by the 31 July 2019 deadline and eight per cent remained outstanding at 30 September 2020. Mazars were the top performer in terms of audit delivery with 20% of opinions late and two per cent still outstanding. Mazars were found to be fully compliant with the terms of appointment.

The report also notes that whilst only 18% of 2019/20 audits were reported as being at risk of being late this number was expected to increase and this forecast transpired to be accurate. The actual percentage of 2019/20 local authority audits outstanding at 30 November 2020 was 55%, an increase on 2018/19 (PSAA press release 4 December 2020).

<https://www.psa.co.uk/managing-audit-quality/audit-quality-monitoring-reports-from-2018-19/quarterly-reports/>

The PSAA Press release regarding late 2019/20 opinions can be found at:

<https://www.psa.co.uk/2020/12/news-release-2019-20-audited-accounts/>

NATIONAL PUBLICATIONS

Financial Reporting Council

16. Major Local Audits – Audit Quality Inspection, October 2020

The framework for the inspection of local audit work

Responsibility for the inspection of local audit work is now with the Financial Reporting Council (FRC) for '*major local audits*' (those with annual expenditure which exceeds £500m) and the ICAEW for those bodies which do not meet the major local audit definition. As part of their inspection of major local audits for the 2018/19 financial year, the Audit Quality Review (AQR) team of the FRC reviewed two of our major local audits and found these to require significant improvements in respect of our audit of the financial statements. The same reviews indicated that our work on value for money arrangements for those audits was of a good standard. Our non-major local audits for 2018/19 were not subject to inspection by the ICAEW.

Our response to the FRC's findings

We are committed to delivering high-quality audits to all of our clients and have responded robustly to the AQR's findings. Our Local Audit Quality Plan incorporates the risks to audit quality identified from a range of sources and identifies that actions we have put in place, or are taking, to mitigate these risks. Our Audit Quality Team is responsible for the maintenance of the plan which is also subject to oversight and scrutiny from the firm's Audit Board.

In addition, we have undertaken a detailed root cause analysis project to identify and understand the drivers of poor audit quality in some of our local audit work. This has focused on all local audits where the need for improvement or significant improvements have been identified either through external inspections or our programme of internal quality monitoring reviews.

We have taken steps to respond to the AQR's specific findings in relation to our work in the following areas of the audit:

- Testing the valuation of property assets;
- Exercising appropriate oversight of group audits, including the direction, supervision and review of the work of component auditors; and
- Document judgements made as part of the audit process, specifically those in relation to our testing of income and expenditure.

We have also strengthened our standard procedures in relation to the audit of net defined benefit pension liabilities arising from our clients' membership of local government pension schemes.

NATIONAL PUBLICATIONS

Financial Reporting Council / HMICFRS

16. Major Local Audits – Audit Quality Inspection, October 2020 (continued)

What this means for the Authority

Although North Yorkshire Police, Fire and Crime Commissioner Fire and Rescue Authority is not a major audit and thus not subject to FRC quality reviews we adopt a common methodology across our public sector audits. It is important to note that the FRC were satisfied with that methodology, but not the way it had been applied on the two audits sampled. Although the FRC did not finalise its report until October 2020 the key messages were conveyed in advance of 2019/20 audits, giving us time to make improvements across all local authority audits.

We take the weaknesses identified by the FRC extremely seriously, and our response to the improvement areas has been robust. It is clear that on areas of the audit such as the valuation of property assets and the audit of defined benefit pension liabilities, we must do more to meet the regulator's expectations. This means that the time we spend on these areas of the audit will increase and the level of challenge we apply in auditing these areas will also increase. Your finance team and your experts will have seen the increase in the scope and scale of work we have undertaken in 2019/20 in terms of the granularity and depth of testing.

Going forward, our response and the increase in the challenge we make, is likely to include the engagement of our own experts (for example, property valuation experts) to fully consider the methodologies and judgements applied by the Authority's own experts. There will be consequential effects on the fee that we are likely to request from the Authority to undertake the audit.

<https://www.frc.org.uk/news/october-2020/frc-publishes-major-local-audit-inspection-results>

17. Responding to the pandemic: the fire and rescue service's response to the COVID-19 pandemic in 2020

HMICFRS concluded that *“overall, fire and rescue services responded very well to the outbreak. They maintained their ability to respond to fires and other emergencies in these extraordinary times. Many supported communities in ways that extended far beyond their statutory duties, with firefighters and staff stepping up to take on a range of pandemic activities, including driving ambulances, and delivering essential items to the most vulnerable and personal protective equipment (PPE) to those working in healthcare”*. However, HMICFRS also identified barriers in mobilising operational staff to assist with pandemic activities and they made six national recommendations to help overcome these barriers. In particular, HMICFRS challenge the need for the tripartite agreement between employers, unions and the National Fire Chief Council (NFCC), which they believed hindered the ability of chief fire officers to deploy their workforce rapidly, safely and effectively to protect the public at a time of national emergency.

HMICFRS' letter to North Yorkshire Fire and Rescue Service states that the Service responded to the pandemic effectively, taking on additional roles whilst fulfilling statutory functions. The letter does not make any recommendations but indicates three areas to focus on as the pandemic continues to test its pandemic and business continuity plans.

<https://www.justiceinspectorates.gov.uk/hmicfrs/publications/the-fire-and-rescue-services-response-to-the-covid-19-pandemic-in-2020/>

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