

# East Sussex Fire Authority

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP



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Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk))

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 (updated 23 February 2017)” issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

A hand holding a blue pen is writing on a document on a desk. In the background, there is a laptop, a calculator, and a white mug. A yellow rectangular box is overlaid on the left side of the image, containing the text "Executive Summary".

## Executive Summary

## Executive Summary

We are required to issue an annual audit letter to East Sussex Fire Authority (the Authority) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Authority's ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
Concluding on the Authority's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Authority
▶ Public interest report	We had no matters to report in the public interest
▶ Written recommendations to the Authority, which should be copied to the Secretary of State	We had no matters to report
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Authority's Whole of Government Accounts return (WGA).	The Authority is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Authority communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 14 September 2017
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 14 September 2017

We would like to take this opportunity to thank the Authority's staff for their assistance during the course of our work.

Paul King

Associate Partner  
For and on behalf of Ernst & Young LLP

Purpose



## Purpose

### The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Authority.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 14 September 2017 Scrutiny and Audit Panel, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Authority.



Responsibilities



## Responsibilities

### Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we presented to the 2 February 2017 meeting of the Scrutiny and Audit Panel and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2016/17 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Authority has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Authority;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Authority, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Authority is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

## Responsibilities of the Authority

The Authority is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Authority reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

A blurred office desk with a laptop, glasses of water, and financial documents. The scene is brightly lit, likely from a window with blinds in the background. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Financial Statement Audit'.

# Financial Statement Audit

## Financial Statement Audit

### Key Issues

The Authority's Statement of Accounts is an important tool for the Authority to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Authority's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 14 September 2017.

Our detailed findings were reported to the 14 September 2017 Scrutiny and Audit Panel.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that 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.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</p>	<p>We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation.</p> <p>We considered the following accounting estimates deemed most susceptible to bias: Valuation of Property, Plant and Equipment and the Pension Liability and disclosures. We concluded that these estimates were reasonably calculated.</p> <p>We did not identify any material weaknesses in controls or evidence of material management override.</p> <p>We did not identify any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business</p> <p>Our testing did not identify any expenditure which had been inappropriately capitalised.</p>

Other Key Findings	Risk and Conclusion
Presentation of the financial statements	<p><u>Risk and Work performed</u></p> <p>Expenditure and funding analysis and Comprehensive income and expenditure statement</p> <p>Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the code) this year changing the way the financial statements are presented.</p> <p>The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.</p> <p>This change in the code will required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives required audit review.</p> <p>In order to address this risk we carried out a range of procedures including:</p> <ul style="list-style-type: none"><li>• Reviewing the expenditure and funding analysis, CIES and new disclosure notes to ensure disclosures are in line with the Code;</li><li>• Reviewing the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Authority's organisational structure and how overheads are apportioned across the service areas reported; and</li><li>• Agreeing restated comparatives figures to the Authority's segmental analysis and supporting working papers.</li></ul> <p><u>Conclusion</u></p> <p>We proposed some minor disclosure amendments that management have agreed to make in the financial statements.</p> <p>In particular it should be noted that the Expenditure and Funding Analysis (EFA), although positioned amongst them, is not a Primary Statement (consistent with the Code Guidance notes).</p> <p>As such, an additional narrative paragraph has been added to the EFA, to reflect this.</p> <p>There were no other matters to report.</p>

Other Key Findings	Risk and Conclusion
<p>Property, Plant and Equipment valuations</p>	<p><u>Risk and Work performed</u>                      Property, Plant and Equipment represent a significant balance in the Authority's accounts and this is an area which involves judgmental inputs and estimates.                      In order to address this risk we carried out a range of procedures including:</p> <ul style="list-style-type: none"> <li>• Reviewing the competence and capability of the valuer and assessing their work, including reviewing the figures produced for the revaluation of the assets and ensuring that an appropriate basis for valuation has been used;</li> <li>• Agreeing the figures produced by the valuer for the revaluation of the assets to the asset register; and</li> <li>• Testing the accounting transactions for the adjustments made in the financial statements to ensure the accounts are materially accurate and compliant with the CIPFA Code of practice.</li> </ul> <p><u>Conclusion</u>                      Following full consideration of their work, we have placed reliance on the Authority's valuer. We have not identified any material issues in relation to the valuation however we did note some inconsistencies between the valuer's main report and supporting working papers.                      We have no other matters to report.</p>
<p>Pension valuations and disclosures</p>	<p><u>Risk and Work performed</u>                      The Authority is an admitted body to the East Sussex County Council Pension Fund. Hymans Robertson are appointed as actuaries for this fund and provide the Authority with the figures for the disclosures in the financial statements, based on payroll and pension data provided to them by the Authority.                      The valuation of pension liabilities represents a significant balance in the financial statements and is an area which involves technical accounting transactions and estimates.                      In order to address this risk we carried out a range of procedures including:</p> <ul style="list-style-type: none"> <li>• Reviewing the competence and capability of the actuary and assessing their work, including reviewing the assumptions used as the basis for producing for pensions figures;</li> <li>• Agreeing the figures produced by the actuary in their actuarial valuation to the disclosures in the financial statements; and</li> <li>• Testing the accounting transactions and journals to ensure the financial statements are materially accurate and compliant with the CIPFA Code of Practice.</li> </ul> <p><u>Conclusion</u>                      Assumptions used by the actuary and adopted by the Authority are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in Note 36 to the financial statements.</p>

The Authority's Statement of Accounts is an important tool for the Authority to show how it has used public money and how it can demonstrate its financial management and financial health.

## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £1.04 million (2016: £1.068 million) for the main financial statements and £217,560 (2016: £222,760) for the pension fund, which is 2% of gross revenue expenditure and benefits payable reported in the accounts of £52 million for the main financial statements and £10.9 million for the pension fund.</p> <p>We consider gross revenue expenditure and benefits payable to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority.</p>
Reporting threshold	<p>We agreed with the Scrutiny and Audit Panel that we would report to the Panel all audit differences in excess of £780,000 (2016: £801,000).</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: no specific testing threshold applied, the impact of any issues were considered individually
- Related party transactions: no specific testing threshold applied, the impact of any issues were considered individually.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with some showing their edges and others showing their faces. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

Value for Money

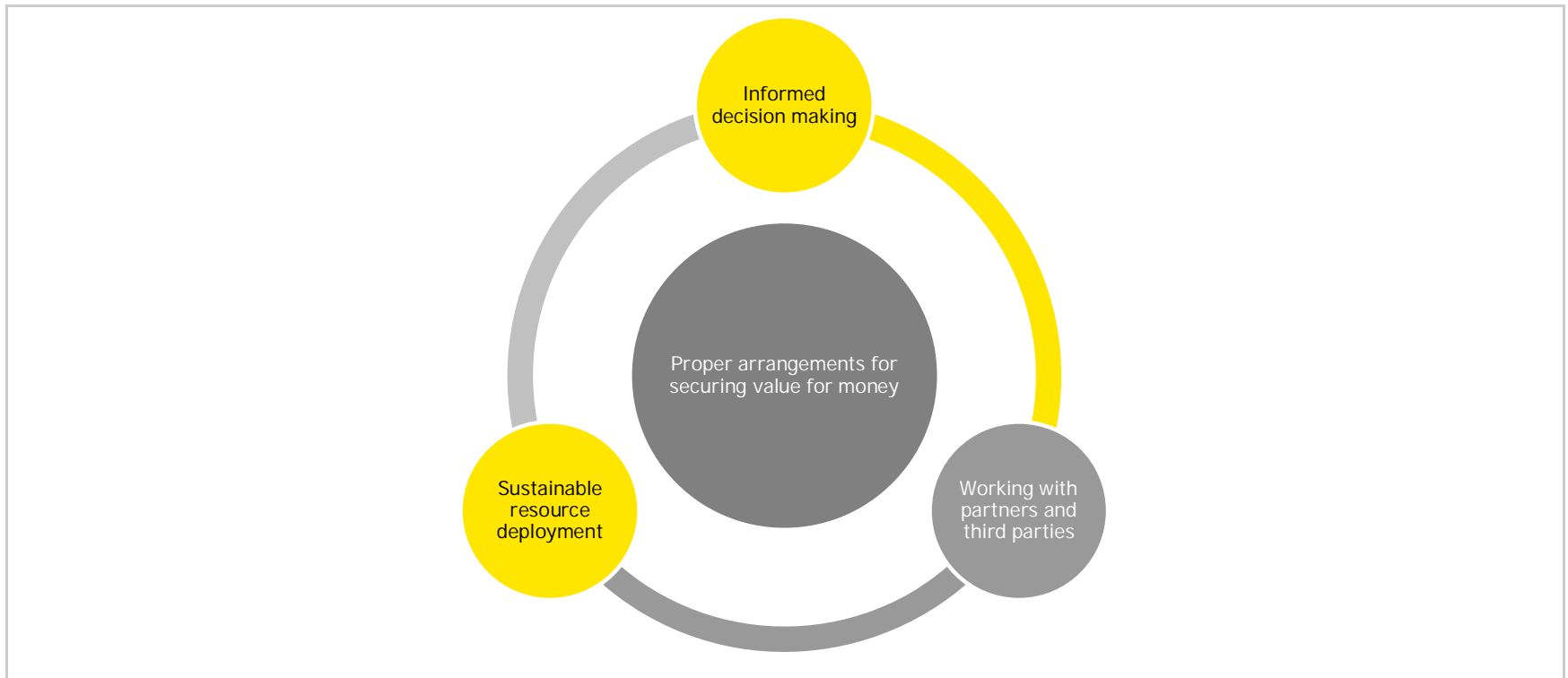


## Value for Money

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. This is known as our value for money conclusion.

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.



We did not identify any significant risks in relation to these criteria

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Authority's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 14 September 2017.



Other Reporting  
Issues

## Other Reporting Issues

### Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Authority for Whole of Government Accounts purposes. We had no issues to report.

The Authority is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Authority or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

### Objections Received

We did not receive any objections to the 2016/17 financial statements from member of the public.

## Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

## Independence

We communicated our assessment of independence in our Audit Results Report to the Scrutiny and Audit Panel on 14 September 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

## Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

Our audit did not identify any controls issues to bring to the attention of the Scrutiny and Audit Panel.

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are focused on the lenses, and their hands are visible holding the device. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your  
future

## Focused on your future

Area	Issue	Impact
<p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p>	<p>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 audited accounts by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Authority has taken a number of steps as outlined below:</p> <ul style="list-style-type: none"> <li>• Critically reviewed and amended the closedown process to achieve draft accounts production by 5 June 2017 for 2016/17</li> </ul> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> <li>• Issued a thought piece on early closedown</li> <li>• As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales</li> <li>• Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017</li> </ul> <p>Locally we have had regular discussions through the year on the Authority's proposals to bring forward the closedown timetable.</p> <p>Together with the Authority agreed areas for early work which have included testing of major income and expenditure streams at month nine we were able to substantively complete our audit by 11 August 2017.</p>

Appendix A

# Audit Fees





## Appendix A Audit Fees

Our fee for 2016/17 is in line with the scale fee set by the PSAA and reported in our 18 January 2017 Audit Plan and 14 September 2017 Annual Results Report.

Description	Final fee 2016/17 £'s	Planned Fee 2016/17 £'s	Scale Fee 2016/17 £'s	Final Fee 2015/16 £'s
Total Audit Fee – Code work	30,766	30,766	30,766	30,766

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

EY | Assurance | Tax | Transactions | Advisory

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ED None

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