

# East Sussex Fire Authority

Audit Results Report - ISA (UK and Ireland) 260  
for the year ended 31 March 2016

September 2016

Ernst & Young LLP



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## Contents

<b>1. Executive summary .....</b>	<b>1</b>
<b>2. Responsibilities and purpose of our work.....</b>	<b>3</b>
<b>3. Financial statements audit .....</b>	<b>4</b>
<b>4. Value for money .....</b>	<b>7</b>
<b>Appendix A – Independence .....</b>	<b>8</b>
<b>Appendix B – Auditor fees .....</b>	<b>9</b>
<b>Appendix C – Required communications with the Scrutiny and Audit Panel.....</b>	<b>10</b>

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. 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 from 1 April 2015’ 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 Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. 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.

## 1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Scrutiny and Audit Panel – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

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

Status of the audit	<p>We have substantially completed our audit of the financial statements of East Sussex Fire Authority for the year ended 2015/16. A number of detailed work areas remain in progress at 1 September 2016. We will provide a verbal update of our progress on the outstanding work areas at the 15 September 2016 meeting of the Scrutiny and Audit Panel.</p> <p>We have performed the procedures outlined in our Audit Plan and based on the procedures performed to date anticipate issuing an unqualified opinion on the Authority's financial statements.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
Objections –	<p>We have not received any objections to the 2015/16 accounts from members of the public.</p>
Audit differences	<p>There are no unadjusted or adjusted audit differences that we are required to report to you.</p>
Scope and materiality	<p>In our audit plan presented at the 25 May 2016 Scrutiny and Audit Panel meeting, we communicated that our audit procedures would be performed using a materiality of £1,111,860 for the main financial statements and £209,660 for the pension fund. We have reassessed these based on the actual results for the financial year and have decreased the main financial statements amount to £1,075,320 because of a decrease in gross operating expenditure and increased the pension fund amount to £222,760 because of an increase in benefits payable.</p> <p>The threshold for reporting audit differences which impact the financial statements has also decreased from £55,593 to £53,766 for the main financial statements and increased from £10,498 to £11,138 for the pension fund.</p> <p>The basis of our assessment is 2% of gross operating expenditure for the main financial statements and 2% of benefits payable for the pension fund, which has remained consistent with prior years.</p> <p>We carried out our work in accordance with our Audit Plan.</p>

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Significant audit risks	We identified the following audit risk during the planning phase of our audit, and reported this to you in our audit plan: <ul style="list-style-type: none"><li>• Risk of management override.</li></ul> The 'addressing audit risks' section of this report sets out how we have gained audit assurance over this issue.
Other reporting issues	We have no other matters we wish to report.
Control observations	We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

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

Paul King  
Executive Director  
For and on behalf of Ernst & Young LLP

## 2. Responsibilities and purpose of our work

### **The Authority's responsibilities**

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Authority reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes 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.

### **Purpose of our work**

Our audit was designed to:

- express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- report on an exception basis on the Annual Governance Statement;
- consider and report any matters that prevent us being satisfied that the Authority had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Authority's accounting policies and key judgments.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

### 3. Financial statements audit

#### Addressing audit risks

We identified the following audit risk during the planning phase of our audit, and reported this to you in our Audit Plan. Here, we set out how we have gained audit assurance over this issue.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p><b>Risk of management override</b></p> <p>As identified in ISA (UK and Ireland) 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.</p>	<ul style="list-style-type: none"> <li>• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>• Reviewed accounting estimates for evidence of management bias;</li> <li>• Evaluated the business rationale for any significant unusual transactions; and</li> <li>• Evaluated the appropriateness of accounting policies against Code guidance and for changes from the prior period</li> </ul>	<p>Our audit work on journals and accounting estimates has not identified any evidence of management bias or significant unusual transactions and we have concluded that the accounting policies adopted are reasonable and in line with Code requirements.</p> <p>We did not identify any matters that we need to bring to your attention.</p>

We also identified the following non-significant audit risk during the planning phase of our audit, and reported this to you in our Audit Plan. Here, we set out how we have gained audit assurance over this issues.

Other Risks	Audit procedures performed	Assurance gained and issues arising
<p>In May 2015 the Pension Ombudsman, an independent organisation that investigates complaints about pension administration, published Mr Milne's determination for the Firefighters' Pension Scheme regarding commutation factors. The Pension Ombudsman ruled that Government Actuary's Department (GAD) failed to review commutation factors within the firefighters' pension scheme. The Ombudsman ordered that a new commutation factor be prepared as if a factor review had been carried out in December 2004.</p> <p>The Authority has determined the additional payments required. The sum of these payments is estimated to be £933k.</p>	<ul style="list-style-type: none"> <li>• Reviewed and tested the Authority's arrangements for ensuring the accuracy and completeness of compensation;</li> <li>• Re-performed the calculation of compensation for a sample of payments, including assessment of the accuracy of inputs; and</li> <li>• Reviewed the associated disclosures in the financial statements to ensure compliance with the Code of Practice on Local Government Accounting, and appropriate accounting standards.</li> </ul>	<p>The Authority has calculated and accounted for the associated transactions in line with Code of Practice on Local Government Accounting, and appropriate accounting standards.</p> <p>We did not identify any matters that we need to bring to your attention.</p>

## Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Authority's financial reporting process, including the following:


- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

We have no matters we wish to report.

## Control themes and observations

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Authority only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware 

We have reviewed the Annual Governance Statement and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority.



## **Request for written representations**

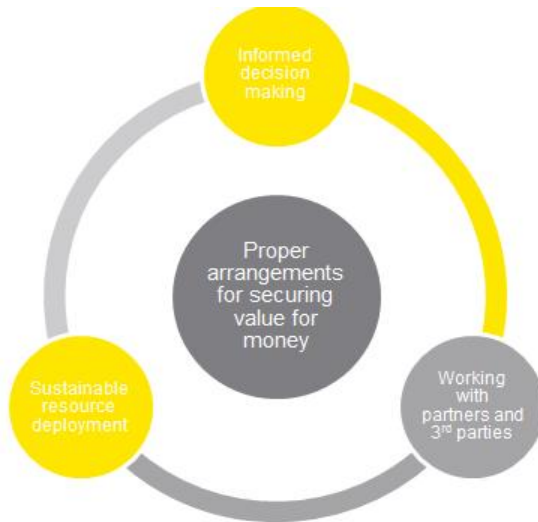
We have requested a management representation letter to gain management's confirmation in relation to a number of matters.

## **Whole of Government Accounts**

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters that arise to the Scrutiny and Audit Panel.

## 4. 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.

### Overall conclusion

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 expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

## Appendix A – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 12 May 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. 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 of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Scrutiny and Audit Panel on 15 September 2016.

We confirm that we have met the reporting requirements to the Scrutiny and Audit Panel, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 12 May 2016.

## Appendix B – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £	Variation comments
Total Audit Fee – Code work	30,766	30,766	None

Our actual fee in in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

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

## Appendix C – Required communications with the Scrutiny and Audit Panel

There are certain communications that we must provide to the Scrutiny and Audit Panel of UK clients. These are detailed here:

Required communication	Reference
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p><b>Significant findings from the audit</b></p> <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
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <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>	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about the Authority's ability to continue as a going concern for the 12 months from the date of our report.
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Audit Results Report
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the Scrutiny and Audit Panel 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>	We have made enquiries of management. We have not <b>becaome</b> aware of any fraud or illegal acts during our audit.
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <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>	We have not matters we wish to report.

Required communication	Reference
<p><b>External confirmations</b></p> <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>	<p>We have received all requested confirmations.</p>
<p><b>Consideration of laws and regulations</b></p> <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 Scrutiny and Audit Panel into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Scrutiny and Audit Panel may be aware of</li> </ul>	<p>We have not identified any material instances of non-compliance with laws and regulations.</p>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's 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>	<p>Audit Plan and Audit Results Report</p>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<p>Audit Results Report</p>
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<p>Audit Plan</p> <p>Audit Results Report</p> <p>Annual Audit Letter if considered necessary</p>
<p><b>Certification work</b></p> <ul style="list-style-type: none"> <li>▶ Summary of certification work undertaken</li> </ul>	<p>Certification Report</p>

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