East Sussex Fire Authority

Scrutiny & Audit Panel Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

September 2015

Building a better
working world

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Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Scrutiny & 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 2014/15 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- As of 8 September 2015, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Authority has prepared its financial statements adequately.

Value for money

- We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- We have not reported any significant matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit certificate

- The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

Section 2

Extent and purpose of our work

Extent 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. In the Annual Governance Statement, 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 2014/15 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)
  - Discharge the powers and duties set out in the Audit Commission Act 1998 and the 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.

As a component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to the NAO and to the Authority..

This report is intended solely for the information and use of the Authority. It is not intended to be and should not be used by anyone other than the specified party.

Section 3

Addressing audit risks

Addressing audit risks – significant audit risks

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

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.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
Risk of management override		
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.	➢ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ➢ Reviewed accounting estimates for evidence of management bias, and ➢ Evaluated the business rationale for significant unusual transactions	All our planned procedures are complete. There are no findings that indicate a risk of misstatement due to fraud or error.

Addressing audit risks – non significant audit risks

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

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Firefighters' injury pensions		
Since 2006, under the Firefighters' Compensation Scheme (England) Order 2006, firefighter compensation for defined injuries have fallen outside firefighter pension schemes and are covered by separate injury award schemes. These types of payments are not considered legitimate expenditure under the pension account arrangements, and as such should be paid from the Authority's general fund rather than the pension fund During 2013/14 an issue was identified across the fire service regarding the financing of compensatory payments for injury awards and injury gratuities in fire authority accounts. In a number of fire authorities these payments had been treated incorrectly, and were charged to the pension fund account. Management have confirmed that payments made by East Sussex Fire Authority comply with the new regulations, however, it will be an area of focus in our audits across the fire authority sector to independently confirm this.	► Considered the Authority's arrangements for ensuring that the financing and accounting of injury awards and injury gratuities are appropriate. ► Sample tested payments of this nature to ensure that they have been accounted for appropriately.	► Our testing is complete and we did not find any issues with the calculation of or accounting for injury awards.

Section 4

Financial statements audit – issues and findings

Financial statements audit – issues and misstatements arising from the audit

Progress of our audit

- The following areas of our work programme remain to be completed. We will provide an update of progress at the Scrutiny & Audit Panel meeting:
  - Receipt of a Letter of Representation; and
  - Agreement of a small number of payroll transactions to original contracts.
- Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected misstatements

- We have identified no misstatements within the draft financial statements, which management has chosen not to adjust.

Corrected misstatements

- Our audit identified a small number of misstatements and presentational issues which our team have highlighted to management for amendment. The most significant of these was to adjust note 36 (page 56) Defined Benefits Pension Schemes, movement in reserves to ensure it was internally consistent. The prior year comparative for the present value of the obligations was increased to £10.5 million (from £3.1 million). There was no impact on the income, expenditure, assets or liabilities of the Authority as a result of this amendment; and
- The post balance sheet events note was updated to disclose the Fire Authority's liabilities in relation to the Pensions Ombudsman determination in the case of the Government Actuary's Department v Milne.

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 your 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.

Financial statements audit – application of materiality

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	
Planning Materiality and Tolerable error	We determined planning materiality to be £1.1 million (2014: £1.1 million), which is 2% of gross expenditure reported in the accounts of £55.6 million being Gross Expenditure of £40.8 million , interest payable of £0.5 million and pension interest of £14.3 million. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority. We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion. We have set tolerable error at the upper level of the available range because there were no corrected significant errors that affected the primary statements in the Authority's 2014/15 financial statements and no uncorrected errors.
Reporting Threshold	We agreed with the Scrutiny & Audit Panel that we would report all unadjusted audit differences in excess of £55,000 (2013/14: £57,000)

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

Financial statements audit – internal control, written representations and whole of government accounts

Internal control

- 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 reviewed the Annual Governance Statement and can confirm that:
  - It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
  - It is consistent with other information that we are aware of from our audit of the financial statements.
- 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.
- However, in their review of contracting and procurement Internal Audit noted some areas where improvement is still required. These include finishing the procurement manual and ensuring that contracts are in place in all cases where spend exceeds the thresholds agreed by 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.

Section 5

Arrangements to secure economy, efficiency and effectiveness

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that East Sussex Fire Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Authority's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 – arrangements for securing financial resilience

- 'Whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future'
- We did not identify any significant risks in relation to this criteria
- We have no issues to report in relation to this criteria

Criteria 2 – arrangements for securing economy, efficiency and effectiveness

- 'Whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'
- We did not identify any significant risks in relation to this criteria
- We have no issues to report in relation to this criteria

- Our work did not identify any other matters relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria above.

Addressing audit risks – significant and non significant VFM risks

We identified the following VFM risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the value for money conclusion is the risk that the auditor may issue the wrong value for money conclusion. Where auditors identify a significant value for money conclusion risk they will need to undertaken additional audit work to enable them to reach an appropriate conclusion. We did not identify any significant risks to the VFM conclusion. However, we did identify one non significant risk and our work to address this is set out in the table below;

Non significant VFM risk identified within our Audit Plan – Financial resilience – Medium term financial planning		
Risk identified	Procedures undertaken	Basis for conclusion
➢ The Authority continues to face financial challenges; with a budget gap of £1.4 million in 2019/20. ➢ The current Medium Term Financial plan seeks to address the budget gap over the medium term and is based on key assumptions about funding levels	Our approach focussed on: ▸ Reviewing the achievement of the planned savings in 2014/15. ▸ Reviewing the Authority's ongoing identification of savings and medium term financial planning and assumptions.	The Authority underspent against budget in 2014/15 by £670,000 and increased reserves in excess of plan. This, given the challenging financial context the Authority faces has increased the Authority's financial resilience. These reserves will continue to provide temporary resources to support the delivery of changes in services, delayed projects and ultimately long term savings. The Medium Term Financial Plan (MTFP) has been updated and reports to the Authority have identified savings proposals over the past 12 months. As a result of updating assumptions regarding income and expenditure the funding gap over the life of the MTFP has increased from £1.4 million to £2.1 million (by 2020/21). This is dependant on the Authority implementing the changes that it has agreed and the savings identified as part of the "Changing the Service Shaping our Future" programme. The Authority has a sound record for delivering the savings required and the MTFP recognises the national context and its assumptions are reasonable.

Section 6

Independence and audit fees

Independence and audit fees

Independence

- We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 28 May 2015.
- We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. 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 & Audit Panel on 17 September 2015.
- We confirm that we have met the reporting requirements to the Scrutiny & 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 were set out in our Audit Plan of 28 May 2015.

Audit fees

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

	Proposed final fee 2014/15	Scale fee 2014/15	Variation comments
	£	£	
Audit Fee: Code work	41,021	41,021	N/A
Non-Audit work	Nil	Nil	N/A

- Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Section 7

Appendices

Appendix A – corrected audit misstatements

- The following corrected misstatements have been identified during the course of our audit and in our professional judgement warrant communicating to you.
- These items have been corrected by management within the revised financial statements

Disclosure	Description of misstatement
1. Note 36 – Defined Benefits Pension Schemes, movement in reserves	Our audit identified a small number of misstatements and presentational issues which our team have highlighted to management for amendment. The most significant of these was to adjust note 36 (page 56) Defined Benefits Pension Schemes, movement in reserves to ensure it was internally consistent. The prior year comparative for the present value of the obligations was increased to £10.5 million (from £3.1 million). There was no impact on the income, expenditure, assets or liabilities of the Authority as a result of this amendment.
1. Post Balance Sheet Events (PBSE)	The note was updated to disclose a non adjusting PBSE regarding the Fire Authority's liabilities in relation to the Pensions Ombudsman determination in the case of the Government Actuary's Department v Milne.

Key

- F – Factual misstatement
- P – Projected misstatement based on audit sample error and population extrapolation
- J – Judgemental misstatement

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