

# East Sussex Fire Authority

## Scrutiny & Audit Panel Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

18 September 2014



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# Executive summary

## *Key findings*

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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 2013/14 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 2014, 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 expect to issue an unqualified confirmation 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.

# Extent and purpose of our work

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## 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 2013/14 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- 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)

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

As a component auditor, we also follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

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.

# 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.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
<b>Significant audit risks (including fraud risks)</b>		
<p>As identified in ISA (UK &amp; Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We will also consider the implications of the issue we previously reported in 2012/2013 ISA260 report and Annual Audit Letter.</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; and</li> <li>• Evaluated the business rationale for any significant unusual transactions.</li> <li>• Adjusted the risk profile for certain areas of testing; and</li> <li>• Ensured we were professionally sceptical</li> </ul>	<ul style="list-style-type: none"> <li>• All our planned procedures are complete. There are no findings that indicate a risk of misstatement due to fraud or error.</li> <li>• All our planned procedures are complete. There are no additional findings that indicate a risk of misstatement due to fraud or error.</li> </ul>

# Addressing audit risks

## Other 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.

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
Other audit risks		
<p><i>Arrangements for securing economy, efficiency and effectiveness (financial resilience) – Medium Term Planning</i></p> <p>The Fire Authority faces a significant resources gap of £7.1m by the end of 2018/19. Following approval of the 14/15 budget which includes a range of non-operational savings and Phase 1 of their operational savings proposals, together with the proposed savings within Phase 2, further savings of £2.4m are required to meet that overall target which the Authority need to achieve by 2018/19. The proposals for Phase 2 operational savings were approved for public consultation at the February Fire Authority meeting with final decisions to be taken in June 2014. Phase 3 savings are as yet uncostered.</p> <p>The scale of savings required means that the Fire Authority needs to radically challenge its current service delivery models and look for new ways of working.</p> <p>There is a risk that the Fire Authority fails to establish sufficiently radical plans to ensure its financial resilience over the medium term.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>• The Fire Authority's progress within the consultation process to move forward with the plan to deliver the required savings; and</li> <li>• The robustness of the plans to move the Fire Authority to a more financially sustainable operational model over the medium term including the consideration of new ways of working.</li> </ul>	<p>Our work on the Authority's arrangements to secure economy, efficiency and effectiveness is set out on page 9 of this report. We have gained sufficient assurance to mitigate the risk identified.</p>

# 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:

- ▶ Property, plant & equipment,
- ▶ Payroll,
- ▶ Pensions; and
- ▶ Immaterial notes.

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 number of misstatements which our team have highlighted to management for amendment. All of these have been corrected during the course of our work.

The most significant of these was to adjust note 36 (page 56) to ensure it was internally consistent. The present value of the obligations were increased by £7.4 million. There was no impact on the income, expenditure, assets or liabilities of the Authority as a result of this amendment

### **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; and,
- ▶ 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 (continued)

## *Internal Control, Written Representations & 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, Internal audit found a weakness within the accounts payable authorisation process relating to forms not being completed or authorised properly. We carried out additional audit testing and found no further breaches.

### **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 & Audit Panel.



# 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 and the work undertaken did not highlight any significant findings.

## 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 and the work undertaken did not highlight any significant findings

## Basis for Conclusion

- ▶ The Authority underspent against budget in 2013/14 by £647,000 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 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. The *Changing the Service, Shaping our Future* programme, along with changes to funding, has seen the funding gap over the life of the MTFP reduce from £7.1m to £1.7m (by 2019/20). This is dependant on the Authority implementing the changes that it has agreed.
- ▶ The Authority needs to deliver the savings identified and has approved the establishment of a Service Transformation Team, responsible for developing detailed plans for Phase 1 and 2 proposals, and taking forward the reviews in Phase 3.
- ▶ The MTFP recognises the national context; its assumptions are reasonable and the Authority has submitted bids for supplementary funding from the Government which if successful will bring in additional resources and lead to new ways of working.

# Independence and audit fees

## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated May 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice 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 and Audit Panel on 18 September 2014.

- ▶ 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&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of May 2014.

## Audit fees

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

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£s	£s	
Total 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.

## Ernst & Young LLP

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (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. 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.

