

East Sussex Fire Authority

Scrutiny and Audit Panel Summary

For the year ended 31 March 2013

Audit results report – ISA 260

19 September 2013



Building a better
working world

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Executive Summary

Key findings

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' 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 2012/13 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 12 September 2013, we expect to issue an unqualified opinion. Our audit demonstrates that the Authority has prepared its financial statements well and this is reflected in the low number of issues to bring to your attention.

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 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

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 the 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 2012/13 financial statements.
 - ▶ Report on any exception on the governance statement or other information included in the foreword.
 - ▶ As a component auditor, 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.
 - ▶ Consider and report any matters that prevent us being satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion).
- This report contains our findings related to the areas of audit emphasis, our views on the Authority's accounting policies and judgments and material internal control findings.
- 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 this specified parties.

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
Significant audit risks- we did not identify any significant risks.		
Other audit risks		
<p>Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.</p> <p>Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.</p> <p>This risk is common to most audits</p>	<p>Based on the requirements of auditing standards our approach focused on:</p> <ul style="list-style-type: none"> •Identifying fraud risks during the planning stages. •Inquiry of management about risks of fraud and the controls put in place to address those risks. •Understanding the oversight given by those charged with governance of management's processes over fraud. •Consideration of the effectiveness of management's controls designed to address the risk of fraud. •Determining an appropriate strategy to address those identified risks of fraud. •Performing mandatory procedures regardless of specifically identified fraud risks. <p>We also considered the results of the National Fraud Initiative and the Authority's response to the Audit Commission's annual fraud survey.</p>	<ul style="list-style-type: none"> • Our planned audit work is complete and there are no significant issues that we need to report to you.

Financial Statements audit

Issues and errors arising from the audit

Progress of our audit

- ▶ The following areas of our work programme are to be completed. We will provide an update of progress at the Scrutiny and Audit Panel meeting:
 - ▶ Receipt of a Letter of Representation.
- ▶ Subject to the satisfactory resolution of the above item, we propose to issue an unqualified audit report on the financial statements.
- ▶ The Authority continues to provide high quality working papers and financial statements. This is evidenced by the very low number of errors noted. Officers have also responded promptly and efficiently to our audit queries.

Corrected Errors

- ▶ Our audit identified very few errors which were highlighted to management for amendment. All these have been adjusted during the course of our work. The only error above our reporting threshold was a £93,698 mis-classification of income in the Comprehensive Income and Expenditure Statement (CIES). It had been included in Community Fire Safety in error instead of Fire Fighting. Management have corrected the financial statements.
- ▶ We do not consider this to be significant.

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;
 - ▶ 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.
 - ▶ Other audit matters of governance interest.
- ▶ We have two issues to report:
 - ▶ Management have updated the contingent liability disclosures to reflect the recent High Court ruling in the Marlie Farm case.
 - ▶ Management also agreed to review the process for ensuring all annual related party declarations are collected, especially for members who leave during the year.

Findings and issues

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 weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
- However, Internal audit found a weakness within the accounts payable authorisation process relating to a change in roles for the Procurement Manager. Our additional audit testing did not highlight any further breaches. Action has been taken and we are satisfied the control weakness has been fully addressed.

Request for written representations

- We have requested a management representation letter to gain management's confirmation in relation to a number of matters, for which we do not currently have sufficient audit evidence.

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 my report are specified by the National Audit Office. We have no issues to report to you.

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.

Criterion 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.
Findings: In year you under spent against budget by £62,000 and increased your reserves in excess of that planned. This has further increased your financial resilience. Given the challenging financial context the Authority faces it has adopted a strategy that is focussed on maximising its levels of reserves in order to provide temporary resources to support the delivery of changes in services and ultimately savings.

Criterion 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.
Findings: You have reacted promptly to funding forecasts and over recent years have implemented a comprehensive programme to reduce costs and maximise income. Your Medium Term Financial Plan has been updated for the period 2014/15 to 2018/19 and sets out a requirement for savings of £7.112m in addition to savings of £1.382m already approved by the Authority in February 2013 over this period. I am satisfied the Authority is taking action to reduce its cost base further while looking for new ways of service provision by working in partnership with others. However, radical solutions are needed to deliver this scale of efficiencies and going forward the Authority will need to make some difficult decisions. This may not be easy given there is no overall political control of the Authority following the May 2013 elections.

Independence & Audit Fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated April 2013.
- ▶ We complied with the Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance and 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 19 September 2013.

- ▶ 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 (ISA) 260. Our communication plan to meet these requirements were set out in our Audit Plan of April 2013.

Audit fees

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

	Proposed final fee 2012/13	Scale fee 2012/13	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.

Appendix 1 - Adjusted Audit errors

- The following adjustment has been made by management within the revised financial statements
 - Correction of a £93,698 mis-classification within income on the Comprehensive Income and Expenditure Statement (CIES). It had been included in Community Fire Safety in error instead of Fire Fighting. Management have corrected the financial statements.

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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.

