

Essex Fire Authority

Annual Audit Letter for the year ended 31 March 2017

September 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)

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 with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Essex 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 July 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 7 August 2017

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

Kevin Suter

Executive Director
For and on behalf of Ernst & Young LLP

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 2nd August 2017 Policy and Strategy Committee, 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 issued on 13th March 2017 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 thy 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 7th August 2017.

Our detailed findings were reported to the 2nd August 2017 Policy and Strategy Committee.

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>In undertaking our work, we considered those balances in the financial statements, where judgements or estimation techniques are more likely to be used. The key estimates were:</p> <ul style="list-style-type: none"> • the valuation of property, plant and equipment; and • the valuation of pension liabilities. 	<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 assessed and were satisfied with the competency and objectivity of the Authority's external property valuer. We undertook appropriate audit procedures to verify and critically challenge the basis of valuation adopted by the valuer.</p> <p>We assessed and were satisfied with the competency and objectivity of the Authority's actuary.</p> <p>We tested a sample of income and expenditure transactions based on our established testing threshold for accuracy. We also carried out cut-off testing where we examined a sample of receipts and payments before and after year end to ensure that the transactions were properly recorded in the accounts.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared</p>

unusual or outside the Authority's normal course of business.

Revenue and expenditure recognition

Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.

For fire authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of fraud in revenue recognition.

We considered whether or not revenue spend had been appropriately capitalised by testing a sample of additions to property, plant and equipment to ensure these were correct to be included as assets on the balance sheet.

Our testing did not identify any material misstatements from the incorrect capitalisation of expenditure items.

Other Key Findings

Conclusion

Financial statements presentation

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 changing the way the financial statements are presented.

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.

The service analysis should be based on the organisational structure under which the Authority operates.

This change in the code requires a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements.

We reviewed the draft Expenditure and Funding Analysis, restated CIES and associated notes.

We agreed with the Authority's assessment that it reports as a single segment, and agreed the restated comparative figures back to the Authority's segmental analysis and supporting working papers.

Audit adjustments were required to ensure the disclosures were in line with the CIPFA Code and these were corrected by management in the final version of the financial statements.

The restated comparative figures agreed to the Authority's segmental analysis and supporting working papers with no issues noted.

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 £1.917 million (2016: £1.958 million), which is 2% of gross expenditure reported in the accounts of £69.9 million adjusted for pension administration costs, interest payable on debt and net interest on the net defined benefit liability, totalling £25.95 million.</p> <p>We consider gross expenditure 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 Policy and Strategy Committee that we would report to the Committee all audit differences in excess of ££95,876 (2016: £97,900)</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: we audited all disclosures and undertook procedures to confirm material completeness
- Related party transactions: we audited all disclosures and undertook procedures to confirm material completeness
- The firefighters' pension fund account: carrying out analytical review on contributions receivable and benefits payable and substantive testing on other material items of income and expenditure

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".

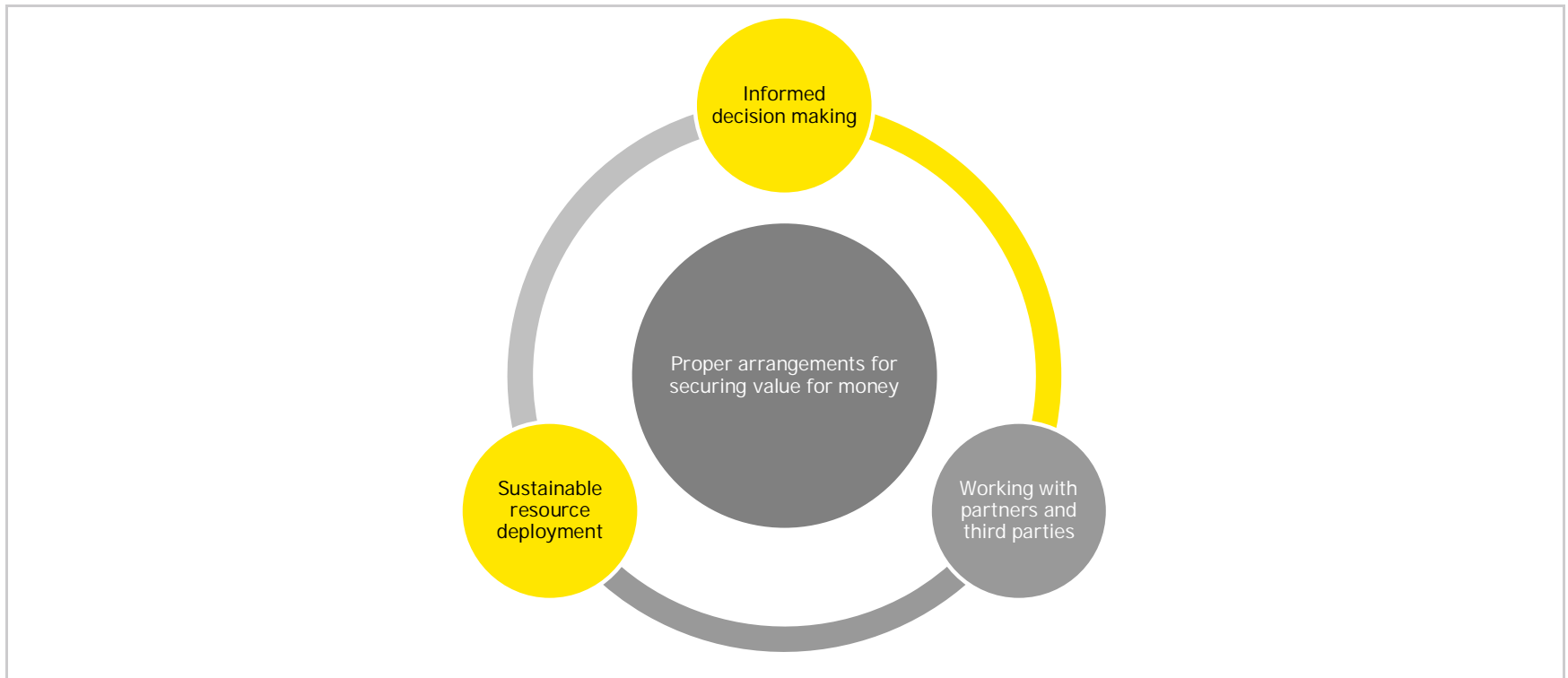
Value for Money

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 identified two significant risks in relation to these arrangements. The tables below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

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 7th August 2017.

Significant Risk	Conclusion
<p>Achievement of savings needed over the medium term</p> <p>The Authority faces significant financial challenges and has identified that they will face an £5.9 million reduction in revenue support grant from 2016-17 to 2019-20. Their efficiency plans have determined that the financial challenge before efficiencies for the four years from 2016-17 to 2019-20 is £14.7 million.</p> <p>Given the scale of the savings needed, there is a risk that savings plans to bridge this gap are not robust and/or achievable.</p> <p>The Authority has recognised this challenge as part of its options for change, through Programme 2020.</p>	<p>On 8th June 2016, Essex Fire Authority agreed to a programme of changes supporting the Authority's strategic priorities. This proposed a 2% increase (about £1.35 on a Band D property per year) in the fire service portion of Council Tax and a small reduction in response resources. The implementation plan for the changes was approved by Essex Fire Authority on 7th September 2016. The proposals within the programme have started to be implemented with the removal of second appliances, relocation of staff and recruitment of on-call crews. Changes in the performance management framework and new performance measures and reporting have also been put in place.</p> <p>The Authority's Efficiency Plan assumes that Council Tax will increase by 2% annually until 2019/20, in line with the Authority's agreed proposals. The Efficiency Plan recognises that the financial challenge before savings are realised is £11.3 million from 2017/18 to 2019/20. However, savings are expected to be £10.6 million, therefore reducing the financial challenge to £0.7 million. The Authority has agreed to use reserves to balance the budget, due to the timing in which savings are expected to be made. The Authority is expecting that by 2019/20, their net forecast position will be a surplus of £0.24 million after efficiency savings. General fund and earmarked reserves are expected to remain at £12 - £13 million from 2017/18 and 2019/20.</p> <p>The Authority's actual net expenditure outturn position for 2016/17 was £71.309 million, an overspend of £5,000 against the latest approved budget of £71.304 million. The outturn position included £1.6 million of capital receipts, which supported the statutory provision for capital financing. This allowed expenditure to be released to fund additional costs, mainly on one-off costs of early exit options to reduce whole-time firefighter numbers, as agreed in the Efficiency Plan.</p>

Police and Fire collaboration within Essex

The Policing and Crime Act 2017 received Royal Assent on 31 January. The Bill makes provision for collaboration between the emergency services and allows police and crime commissioners to govern fire and rescue services as well as police.

The new Policing and Crime Act 2017 offers the opportunity to transform local fire and rescue governance, enabling police and crime commissioners to govern the fire and rescue authority where a strong local case is made.

On 16 February 2017, the PCC for Essex launched a public consultation on the potential change in the way Essex County Fire & Rescue Service is governed.

The public consultation closed on 10 May 2017 and the PCC's proposal for future arrangements within Essex was sent to the Home Secretary. Legal approval is expected to be received in September 2017 and the changes will take effect on 1 October 2017.

The Police and Crime Commissioner for Essex undertook a 12 week consultation with the public, top tier local authorities, police and fire & rescue staff and wider stakeholders from 16th February to 10th May 2017.

The Local Business Case assessed the options for changes to governance of the Fire Service. Letters of support were received from all three top tier local authorities; three letters were received signed by 17 Essex MPs and 1,708 responses were received from the public.

The consultation results showed that the joint governance option scored the highest in terms of potential benefits and ease of delivery. The final version of the Local Business case was submitted to the Home Secretary on 19th May 2017.

It is expected that the necessary Statutory Instruments to change the arrangements will be in place for 1st October 2017.

Planning for the transition has commenced and committees have been set up to monitor and review this work, including an Emergency Services Strategic Governance Board and Transition Working Group. Senior officers and members from Essex Police and Essex Fire are involved in these committees. A project plan is under development, which will detail what needs to be completed to achieve a clean and smooth transition with the timescale. Key activities include the development of a revised constitution, review of the governance structure, a formal staff consultation and development of a communication strategy.



Other Reporting
Issues

Other Reporting Issues

Whole of Government Accounts

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 Policy and Strategy Committee on 2nd August 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.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

Description	Impact
Our testing of entity level controls identified that the system used for recording retained firefighters' hours, does not have any automated controls for segregation of duties.	<p>Lack of segregation of duties means that the same person can both input and authorise their hours, potentially authorising payment to themselves for hours they may not have worked.</p> <p>We understand that this is in contravention of HR policies and that a new system is to be implemented during 2017/18, which will include automated controls.</p> <p>Furthermore, discussions with officers indicate that mitigating detection controls are in place through budget monitoring and management review and challenge of the hours worked.</p> <p>However, we recommended that existing staff are reminded of the HR policies and that recording and authorisation of hours should be carried out by different people.</p>

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

The key issues summarised here are those that are likely to have implications for the audit of the financial statements and the VFM conclusion

Area	Issue	Impact
<i>Policing and Crime Act 2017</i>	<p>Increase in emergency services collaboration between police bodies, ambulance and fire and rescue services.</p> <p>Provision for Police and Crime Commissioner (PCC) to act as the Fire and Rescue Authority.</p>	<p>Powers introduced to allow increased collaboration between emergency services.</p> <p>Powers that allow the PCC to act as Fire and Rescue Authority with a variety of governance and accounting structures resulting.</p> <p>The Police and Crime Commissioner for Essex submitted the Local Business Case to the Home Secretary on 19th May 2017 for implementing joint governance arrangements with Essex Fire.</p> <p>It is expected that the necessary Statutory Instruments to change the arrangements will be in place for 1st October 2017.</p>
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	<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 reviewed and amended the closedown process over the last year to achieve draft accounts production by 31 May 2017 for 2016/17.</p> <p>Locally we have agreed with management areas for early work which have included testing of major income and expenditure streams at month nine. With management's input, we will continue to develop this approach to bring forward our audit during the 2017/18 audit.</p>

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ED None

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