

Buckinghamshire and Milton Keynes Fire Authority

Year ending 31 March 2014

Audit Plan

March 2014



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Overview and Audit Committee
Buckinghamshire and Milton Keynes Fire Authority
Southfields Road
Kempston
Bedford
MK427NR

March 2014

Ref: BMKFA/14-15 Annual Audit Fee
Your ref:

Direct line: 01582 643186

Email: mwest@uk.ey.com

Dear Members,

Audit Plan Buckinghamshire and Milton Keynes Fire Authority (Authority)

We are pleased to attach our audit plan which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Overview and Audit Committee with a basis to review our proposed audit approach and scope for the 2013-14 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Overview and Audit Committee's service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for the Authority, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Mick West
Director
For and behalf of Ernst & Young LLP

Enc

cc
Councillor D Watson Chair of the Overview and Audit Committee
David Skinner Director of Finance and Assets

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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 Plan 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.

1. Overview

1.1 Context for the audit

This audit plan covers the work that we plan to perform in order to provide the Authority with:

- ▶ An audit opinion on whether the Authority financial statements give a true and fair view of its financial position as at 31 March 2014 and of the income and expenditure for the year then ended
- ▶ An audit opinion on whether the firefighters' pension fund financial statements give a true and fair view of the financial transactions of the fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year
- ▶ A conclusion on the arrangements to secure economy, efficiency and effectiveness

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on your Whole of Government Accounts return.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements
- ▶ Developments in financial reporting and auditing standards
- ▶ The quality of systems and processes
- ▶ Changes in the business and regulatory environment
- ▶ Management's views on all of the above

By considering these inputs, our audit is focused on the areas that matter. And by focusing on the areas that matter, our feedback is more likely to be relevant to the Authority.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

1.2 Our process and strategy

1.2.1 Financial statement audit

We will apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinions. We carry out an initial assessment of materiality using the financial statements for 2012-13 but will update this when we receive the draft and final financial statements. Our audit is designed to identify errors above materiality.

We aim to rely on the Authority's internal controls in key processes to the fullest extent allowed by auditing standards. We identify the controls we consider important. Where control failures are identified we look for alternative assurance which may involve additional audit work. We report significant deficiencies in internal control to the Overview and Audit Committee.

To the fullest extent permissible by auditing standards, we will seek to place reliance on the work of internal audit wherever possible.

Mick West is the Ernst & Young Director for the audit. Graham West is the Manager and Rama Karia the team leader. All have significant public sector audit experience.

There has been no change to the scope of the audit compared to previous audits.

1.2.2 Arrangements for securing economy, efficiency and effectiveness (value for money conclusion)

We adopt an integrated audit approach such that our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

2. Financial statement risks

We consider the key strategic and operational risks, and the financial statement risks facing the Authority, identified through our knowledge of its operations, and discussion with officers and the Overview and Audit Committee. We assess how these impact on our audit approach and set out below the key areas of focus for our audit of the financial statements. A significant risk is an identified and assessed risk of material misstatement that, in an auditor's judgment, requires special audit consideration. We identified no significant risks.

Significant risks (including fraud risks) Our audit approach

Risk description

No significant risks have been identified ▶ n/a

Other financial statement risks Our audit approach

Risk of misstatement due to fraud and error

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.

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.

Based on the requirements of auditing standards our approach will focus on:

- ▶ 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

We will consider the results of the National Fraud Initiative and may make reference to it in our reporting.

3. Economy, efficiency and effectiveness

Our value for money conclusion focuses on whether there are proper arrangements in place to secure:

- ▶ Financial resilience
- ▶ Economy, efficiency and effectiveness in the use of resources

For 2013-14 we will meet our value for money duty by:

- ▶ Performing a risk assessment at planning stage
- ▶ Reviewing the Authority's arrangements for characteristics of proper arrangements for the above criteria
- ▶ Performing any additional risk-based work necessary to discharge our value for money responsibilities
- ▶ Performing a risk assessment at the conclusion of the audit

We have not identified any significant risks in our work so far which includes:

- ▶ Discussions with officers
- ▶ Discussions with internal audit
- ▶ Reviewing reports and minutes
- ▶ Reviewing the risk register
- ▶ Our financial statements audit planning
- ▶ Attending the Overview and Audit Committee

At the date of this report we have identified no significant risks that require us to undertake any additional specific risk-based work.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice (the Code), dated March 2010, our principle objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the:

- ▶ Authority and firefighters' pension fund financial statements
- ▶ Arrangements for securing economy, efficiency and effectiveness in the use of resources

We issue a two-part auditor's report covering both of these objectives.

4.1.1 Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on your Whole of Government Accounts return.

4.1.2 Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Authority's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ 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.
- ▶ 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.

4.2 Audit process overview

Our financial statements audit involves:

- ▶ Assessing the key internal controls in place and testing the operation of these controls
- ▶ Review and re-performance of the work of internal audit
- ▶ Reliance on the work of other auditors where appropriate
- ▶ Reliance on the work of experts for property valuations and pensions
- ▶ Substantive tests of detail of transactions and amounts.

4.2.1 Processes

Our initial assessment across the Authority has identified the following key processes where we will seek to test key controls:

- ▶ Accounts payable
- ▶ Cash and bank
- ▶ Payroll

4.2.2 Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of financial data, in particular in respect of payroll and journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- ▶ Give greater likelihood of identifying errors than random sampling techniques

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Overview and Audit Committee.

4.2.3 Internal audit

We will review internal audit plans and the results of work undertaken. We will reflect the findings from these reports, together with reports from other work completed in the year, in our detailed audit plan, where issues are raised that could impact the year-end financial statements.

4.2.4 Mandatory procedures

In addition to the key areas of emphasis outlined we have to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline the procedures we will undertake during the course of our audit.

Mandatory procedures required by auditing standards on:

- ▶ Addressing the risk of fraud and error
- ▶ Significant disclosures included in the financial statements
- ▶ Entity-wide controls
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements
- ▶ Auditor independence.

Procedures required by the Code on:

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement
- ▶ Reviewing and reporting on the Whole of Government accounts return, in line with the instructions issued by the NAO

- ▶ Reviewing, and where appropriate, examining evidence that is relevant to the Authority's corporate performance management and financial management arrangements and reporting on these arrangements

4.3 Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with the Authority its expectations regarding our detection of misstatements in the financial statements.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

ISA (UK & Ireland) 450 (revised) requires us to record all misstatements identified except those that are "clearly trivial". All uncorrected misstatements found above this level will be presented in our year-end report.

4.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of the Authority is £41,839, which is unchanged from 2012-13.

4.5 Your audit team

The engagement team is led by the Director, Mick West, He is supported by Graham West who has significant public sector audit experience who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the finance team.

4.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money conclusion work and the Whole of Government Accounts (WGA); and the deliverables we have agreed to provide through 2014. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We will provide a report to the Overview and Audit Committee in September 2014, incorporating the outputs from our year-end procedures. From time to time matters may arise that require immediate communication and we will discuss them with the Authority as appropriate.

Following the conclusion of our audit we will prepare an annual audit letter in order to communicate to the Authority and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Overview and Audit Committee timetable	Deliverables
High level planning	December 2013	Overview and Audit Committee	Audit fee letter
Risk assessment and setting of scopes	December 2013 - March 2014	Overview and Audit Committee	Audit plan
Testing of routine processes and controls	January - March 2014	Overview and Audit Committee	Interim findings
Year-end audit	July - September 2014	Overview and Audit Committee	Report to those charged with governance Auditor's report including our opinions on the Authority and firefighters' pension fund financial statements; the conclusion as to whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and the audit completion certificate
	November 2014		The report to the NAO on WGA Annual audit letter

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (Ernst & Young) including consideration of all relationships between the you, your affiliates and directors and us ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review ▶ The overall assessment of threats and safeguards ▶ Information about the general policies and process within Ernst & Young to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed ▶ Details of non-audit services provided and the fees charged in relation thereto ▶ Written confirmation that we are independent ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission’s Standing Guidance and your policy for the supply of non-audit services by Ernst & Young and any apparent breach of that policy ▶ An opportunity to discuss auditor independence issues

In addition, during the course of the audit, we are required to communicate whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted.

We ensure that the total amount of fees that Ernst & Young and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. However we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

5.2.1 Self interest threats

A self interest threat arises when Ernst & Young has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard 4.

At the time of writing we have undertaken no non-audit services, there are no long outstanding fees and there are no other self interest threats.

5.2.2 Self review threats

Self review threats arise when the results of a non-audit service performed by Ernst & Young or others within the Ernst & Young network are reflected in the amounts included or disclosed in the financial statements. There are no self review threats at the date of this report.

5.2.3 Management threats

Partners and employees of Ernst & Young are prohibited from taking decisions on behalf of management of the Authority. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work. There are no management threats at the date of this report.

5.2.4 Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

5.2.5 Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that Ernst & Young is independent and the objectivity and independence of Mick West, your audit engagement director and the audit engagement team have not been compromised.

5.3 Other required communications

Ernst & Young has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within Ernst & Young for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 29 June 2012 and can be found here: [UK 2013 Transparency Report](#)

Appendix A Fees

	Planned Fee 2013-14	Actual Fee 2012-13
Total Audit Fee – Code work	£41,839	£41,839

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables
- ▶ We are able to place reliance, as planned, on the work of internal audit
- ▶ The level of risk in relation to the audit of accounts is consistent with that in the prior year
- ▶ No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based
- ▶ Our financial statements opinions and use of resources conclusion being unqualified
- ▶ Appropriate quality of documentation is provided by the audited body
- ▶ An effective control environment is in place
- ▶ We have no significant issues to report to the NAO on Whole of Government Accounts

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed in advance where possible with the Authority.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to those charged with governance of audited clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	Audit plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the auditor's report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Report to those charged with governance
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Report to those charged with governance
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Report to those charged with governance
<p>Related parties</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"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Report to those charged with governance

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	<p>Report to those charged with governance</p>
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ 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 ▶ Enquiry of those charged with governance into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that those charged with governance may be aware of 	<p>Report to those charged with governance</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on Ernst & Young'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"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>For listed companies, communication of minimum requirements as detailed in the ethical standards:</p> <ul style="list-style-type: none"> ▶ Relationships between Ernst & Young, the audited body and senior management ▶ Services provided by Ernst & Young that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by Ernst & Young analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the ethical standards ▶ Those charged with governance should also be provided an opportunity to discuss matters affecting auditor independence 	<p>Audit plan</p> <p>Report to those charged with governance</p>
<p>Going concern</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"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>Report to those charged with governance</p>

Required communication	Reference
Significant deficiencies in internal controls identified during the audit	Report to those charged with governance
Fee Information	
▶ Breakdown of fee information at the agreement of the initial audit plan	Audit plan
▶ Breakdown of fee information at the completion of the audit	Report to those charged with governance
	Annual audit letter if considered necessary

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