

Buckinghamshire and Milton Keynes Fire Authority

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

July 2016

Ernst & Young LLP



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working world

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. 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 from 1 April 2015’ 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 Audit Results Report is prepared in the context of the Statement of Responsibilities. This report is intended solely for the use of the members of the audited body. 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. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Overview and Audit Committee – on the work carried out to discharge our statutory audit responsibilities, together with any governance issues identified. This report summarises findings from the 2015/16 audit, which is substantially complete. It includes messages arising from our audit of the financial statements and the results of our work to assess arrangements to secure economy, efficiency and effectiveness in the Authority's use of resources.

We show below the results and our conclusions on the significant areas of the audit.

| | |
|-----------------------|--|
| Status of the audit | <p>We have substantially completed our audit of the financial statements for the year ended 2015/16. Subject to satisfactory completion of the outstanding items included in Appendix B we will issue an audit opinion in the form by the end of July 2016.</p> <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the financial statements.</p> <p>We expect to conclude that the Authority has put in place proper arrangements to secure value for money in its use of resources.</p> <p>HM Treasury have produced a revised timetable for the completion and submission of the Whole of Government Accounts submission for local government. This means that unaudited submissions for local government bodies are not required until 12 August 2016.</p> <p>We have not therefore performed the procedures required by the National Audit Office (NAO) for the Whole of Government Accounts submission. We will update you on this matter at the Committee meeting.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p> |
| Audit differences | <p>There are no unadjusted audit differences.</p> <p>Our audit also identified several audit differences which our team have highlighted to management for amendment. These have been corrected during the audit and further details are provided at Appendix A.</p> <p>These adjustments have not had an impact on useable reserves or the financial standing of the Authority.</p> |
| Scope and materiality | <p>In our audit plan presented at the 25 February 2016 Overview and Audit Committee meeting, we set materiality of £628k when deciding on our audit procedures. We have reassessed this based on the Authority's actual results and have increased this amount to £632k. The reason for the increase in planning materiality was higher operating expenditure in 2015/16 comparing to the Authority's 2014/15 outturn.</p> <p>The basis of our assessment is 2% of gross operating expenditure, which is consistent with prior years.</p> <p>The threshold for reporting audit differences which have an impact on the financial statements has remained the same at £31k.</p> |

For the Firefighters' Pension Fund we establish a separate materiality. The level of materiality was £96k based on 1% of benefits payable in 2015/16.

Significant audit risks

We identified the following audit risks during our planning, and reported them in our audit plan:

- The accounting for Milne vs GAD
- The accounting for the Joint Control Room
- The risk of management override.

- Value for Money – The risk that the Authority will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues during the audit.

Other reporting issues

We have no other matters to report.

Control observations

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

We would like to take this opportunity to thank the Authority's staff for their assistance during the audit.

Maria Grindley

Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities 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 (AGS). In the AGS, the Authority reports publicly on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements, and any planned changes in future.

The Authority is also responsible for having 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 2015/16 financial statements and the consistency of other information published with them;
- report by exception on the AGS;
- consider and report any matters that prevent us being satisfied that the Authority had proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion); and
- discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

This report also contains our findings on any areas of audit emphasis and our views on any significant deficiencies in internal control or the Authority's accounting policies and key judgements.

We also review and report to the National Audit Office on the Whole of Government Accounts return. The extent of our review is specified by the National Audit Office.

3. Financial statements audit

Addressing audit risks

We identified the following audit risks when we planned our audit, and reported them in our Audit Plan. We set out below how we have gained the necessary audit assurance.

A significant audit risk is an inherent risk which is both more likely to happen and has a greater effect if it does happen; so it requires special audit consideration. For significant risks, we obtain a relevant understanding of the entity's controls and assess their design and implementation.

| Significant Risks (including fraud risks) | Audit procedures performed | Assurance gained and issues arising |
|---|---|--|
| <p>Milne vs GAD</p> <p>In May 2015 the Pension Ombudsman, an independent organisation that investigates complaints about pension administration, published Mr Milne's determination for Firefighters' Pension Scheme regarding commutation factors. The Pension Ombudsman ruled that Government Actuary's Department (GAD) failed to review commutation factors within the firefighters' pension scheme.</p> <p>The Ombudsman ordered that a new commutation factor be prepared as if a factor review had been carried out in December 2004.</p> <p>The Authority has determined the additional payments required. The sum of these payments is estimated to be £484k which is material to the Pension Fund.</p> | <p>We:</p> <ul style="list-style-type: none"> • Reviewed and tested the Authority's arrangements for ensuring the accuracy and completeness of compensation; • Re-performed the calculation of compensation for a sample of payments, including assessment of the accuracy of inputs; and • Reviewed the associated disclosures in the financial statements to ensure compliance with the Code of Practice on Local Government Accounting, and appropriate accounting standards. | <p>Additional payments of £726k resulting from the Milne v GAD ruling was made by the Authority in advance of year-end. The associated grant was also received by the Authority in advance of year-end. This significantly reduced the risk of disclosure error.</p> <p>We tested a sample of payment calculations, and tested the completeness of payments made. We have no matters to report from this work.</p> <p>The manner of the disclosure was not subject to additional guidance, however, the lump sum and interest payments have been appropriately disclosed within the pension fund account. Since these are material transactions, they have been appropriately shown as separate line items within the account.</p> |
| <p>Joint Control Room</p> <p>The Joint Control Room (with Oxfordshire Fire and Rescue Service and Royal Berkshire Fire Authority) became operational in April 2015. This will be the first year that this will need to be disclosed within the financial statements and there is a risk that this will not be accounted for correctly. In particular the disclosures made and ensuring that the correct split of costs is used.</p> | <p>We:</p> <ul style="list-style-type: none"> • Reviewed the agreements in place between the three bodies; • Reviewed associated disclosures made within the financial statements to ensure compliance with the Code of Practice on Local Government Accounting, and appropriate accounting standards; and • Tested a sample of income and expenditure related to the Joint Control Room and ensure that it has been appropriately recharged to the Authority. | <p>We have received the signed agreement between the three Authorities which details the agreed upon apportionment model in place.</p> <p>An additional disclosure was required within the Related Parties note to reflect the agreement in place.</p> <p>We also tested the expenditure incurred from the joint control room. We have no matters to report from this work.</p> |

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.

We:

- 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 any significant unusual transactions.

Our testing of journal entries did not identify adjustments which were outside of the normal course of business. All journals tested had an appropriate business rationale.

The most significant accounting estimates in the financial statements relate to the net pension liability and property valuations. We found no indication of management bias in these estimates.

We identified one significant unusual transaction, which was the movement in reserves to reduce the capital financing requirement. We have confirmed the appropriateness of the business rationale for this movement.

We did not identify any evidence of management override or fraudulent activity.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell the Authority significant findings from the audit and any other matters significant to oversight of the Authority's financial reporting process, including the following:

- qualitative aspects of accounting practices, estimates and disclosures;
- matters specifically required by other auditing standards to be reported to those charged with governance, e.g. 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 to report.

Control themes and observations

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

We have reviewed the Annual Governance Statement and can confirm that it is not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority.

Request for written representations

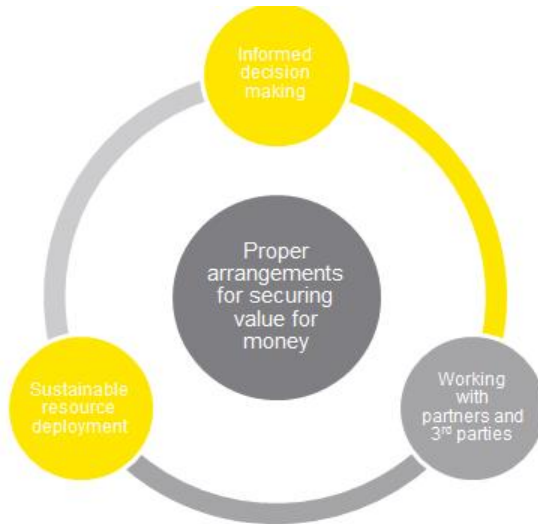
We have asked for a representation letter to gain management's confirmation on a number of matters, as outlined in the papers for the 27th July 2016 Overview and Audit Committee.

Whole of Government Accounts

We also review and report to the National Audit Office on the Authority's Whole of Government Accounts return. The extent of our review is specified by the National Audit Office.

We have not yet completed our work in this area and will provide an update to the Overview and Audit Committee.

4. Value for money



We must consider whether the Authority has ‘proper arrangements’ to secure economy, efficiency and effectiveness in 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 consist of the Authority’s arrangements to:

- ▶ take informed decisions;
- ▶ deploy resources in a sustainable manner; and
- ▶ work with partners and other third parties.

Overall conclusion

We identified one significant risk for these criteria:

- The Authority will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

We have performed the procedures as outlined in our audit plan. As a result of this work we did not identify any significant weaknesses in the Authority’s arrangements.

We therefore expect to conclude that the Authority has proper arrangements to secure value for money in its use of resources.

Significant risks

The table below presents the findings of our planned work

| VFM risk identified in our audit plan | Has an impact on arrangements for: | Key findings |
|--|--|---|
| <p>The Authority will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p> <p>The Authority continues to face financial challenges with a cumulative budget gap, on the current medium term financial plan, of £2.6 million in 2018/19.</p> <p>The medium term financial plan sets out the Authority's strategic approach for closing the budget gap and key deliverables that are critical to the future financial sustainability of the Authority.</p> <p>Continued reductions in government grants is one of the key drivers of the need for significant savings.</p> <p>The Authority continues to seek alternative solutions to ensure that local services can be maintained and supported in the future, in line with local need.</p> | <ul style="list-style-type: none"> • taking informed decisions; • deploying resources in a sustainable manner; and • working with partners and other third parties. | <p>We have used PSAA's value for money profile tool to assess Authority's spending against similar Fire Authorities.</p> <p>We have reviewed and assessed the assumptions within the Authority's 2016/17 budget and medium term financial plan.</p> <p>We have no matters to report from this work.</p> |

Appendix A – Corrected audit differences

We identified the following disclosure corrections required, some of which contain corrected differences greater than £0.032 million, which we believe we should report to the Committee. None of these have an impact on the Authority's financial position.

These items have been corrected by management in the revised financial statements.

Disclosures

| Disclosure | Description of difference |
|--|---|
| MIRS | The disclosure was expanded to include Capital Receipts Unapplied and Capital Grants Unapplied per the requirements of the Code. This amendment to the disclosure did not affect the total of reserves in the Statement of Accounts. |
| Note 1 – Service Information | This disclosure was updated to be consistent with the figures from the Narrative Statement which are based on the figures that went to the February 2016 Full Authority meeting. |
| Note 2 – Officers Remuneration | Additional disclosures required per the requirements of the Code to include exit packages in bandings of £20k rather than a total figure. |
| Note 9 – Related Parties | Additional disclosure added to the Related Parties note to clearly set out the arrangements in place for the joint control room and the financial impact to the authority. |
| Note 18 – Short Term Borrowing and Creditors | As a result of substantive testing we identified that there had been misclassifications between subheadings which required amendment. There was no impact on the total balance of Short term borrowing and creditors. |
| Note 29 – Financial Instruments | Various amendments required to this disclosure to meet the requirements of the Code. This included amendments to what is classed as a financial asset. The result of these amendments did not have an impact on the CIES or Balance Sheet. |

Appendix B – Outstanding matters

The following items are outstanding at the date of this report:

| Item | Actions to resolve | Responsibility |
|--|--|---|
| Management representation letter | Receive signed letter of representation. | Management and Overview and Audit Committee. |
| Pension Liability Valuation | Receipt and evaluation of assurance from the Pension fund administrator's auditor. | EY and Buckinghamshire County Pension Fund auditor. |
| Subsequent events review | Complete the subsequent events procedures up to the date the audit report is signed. | EY and management |
| Whole of Government Accounts | Preparation of submission by management, and review of the submission by EY. | EY and management |
| Final completion of audit procedures and Engagement Partner review | Management and EY to work together to complete any outstanding work. In particular this will include final reviews of audit documentation and work papers from Audit Manager and Engagement Partner. | EY and management |

Appendix C – Independence

We confirm that there are no changes in our assessment of independence since our confirmation in the Audit Plan dated 26 February 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. 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 do not know of any relationships that may affect the independence and objectivity of the firm and which auditing and ethical standards require us to report to you.

We consider that our independence in this context is a matter that should be reviewed both by the Authority and by us. It is therefore important that you consider any facts you know about and come to a view. If you wish to discuss any matters concerning our independence, we will be happy to do so at the Overview and Audit Committee on 27 July 2016.

We confirm that we have met the reporting requirements to the Overview and Audit Committee as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan for doing this was set out in the Audit Plan of 26 February 2016.

Appendix D – Audit fees

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

| Description | Proposed final Fee 2015/16 £ | Scale Fee 2015/16 £ | Variation comments |
|-----------------------------|------------------------------------|---------------------------|-----------------------|
| Total Audit Fee – Code work | 31,379 | 31,379 | - |

Our actual fee is in line with the scale fee set by the PSAA, subject to satisfactory clearance of the outstanding work.

We confirm we have not undertaken any non-audit work outside the PSAA's requirements

Appendix E – Required communication with the Overview and Audit Committee

We must provide certain communications to the Audit Committees of UK clients, as detailed below:

| 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 on the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Any significant difficulties encountered during the audit ▶ Any significant matters arising from the audit and discussed with management ▶ Written representations requested from management ▶ Expected modifications to the audit report ▶ Any other matters significant to the oversight of the financial reporting process | Audit Results Report |
| <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 | No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Buckinghamshire and Milton Keynes Fire Authority's ability to continue as a going concern for the 12 months from the date of our report. |
| <p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements relating to prior periods ▶ A request for any uncorrected misstatement to be corrected ▶ In writing, any significant corrected misstatements | Audit Results Report |
| <p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Overview and Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud we have identified or information obtained indicating that a fraud may exist ▶ A discussion of any other matters related to fraud | We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit. |
| <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 | We have not matters we wish to report. |

| 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 | Audit Results Report |
| <p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Ask the Overview and Audit Committee about possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and which the Overview and Audit Committee may know about | We have not identified any material instances of non-compliance with laws and regulations. |
| <p>Independence</p> <p>Communication of all significant facts and matters bearing on EY'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 processes to maintain objectivity and independence | Audit Plan and Audit Results Report |
| <p>Significant deficiencies in internal controls identified during the audit</p> | Audit Results Report |
| <p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit | <p>Audit Plan</p> <p>Audit Results Report</p> <p>Annual Audit Letter if considered necessary</p> |

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