Buckinghamshire & Milton Keynes Fire Authority

Annual Audit Letter for the year ended 31 March 2018

August 2018

EY

Building a better working world

Contents

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.

01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to Buckinghamshire and Milton Keynes Fire Authority following completion of our audit procedures for the year ended 31 March 2018.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Authority's and Pension Fund's: ► Financial statements; and	Unqualified – the financial statements give a true and fair view of the financial position of the Authority and Pension Fund as at 31 March 2018 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 Annual Governance Statement;	The Annual 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; and	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).	We had no matters to report.

Executive Summary

As a result of our work 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 25 June 2018.
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 18 July 2018.

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

Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

02 Purpose and Responsibilities

Purpose and Responsibilities

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 2017/18 Audit Results Report to the 18 July 2018 Overview and Audit 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 of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 1 February 2018 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 2017/18 financial statements, including the pension fund; 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 you Whole of Government Accounts 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.

03 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 and Pension Fund'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 18 July 2018.

Our detailed findings were reported to the 18 July 2018 Overview and Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Misstatements due to fraud or error/Risk of management override of control The financial statements as a whole are not free of material misstatements whether caused by fraud or error. 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 preparing the financial statements. We reviewed accounting estimates for evidence of management bias relating to revenue and expenditure recognition. We evaluated the business rationale for any significant unusual transactions. We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.
Risk of fraud in 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. We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end. The risk in local government resides in areas in which management judgements are made and transactions not subject to routine based system controls. As such we attach the risk of revenue recognition to the judgements made in recognising capital expenditure and the subsequent capital financing transactions.	We reviewed and tested revenue and expenditure recognition policies. We reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias. We developed a testing strategy and tested material revenue and expenditure streams. We reviewed and tested revenue and expenditure cut-off at the period end date. Our testing has not identified any material misstatements from revenue and expenditure recognition. Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
Valuation of Land and Buildings	We have reviewed the data sent to, and the report produced by, the Authority's valuer. We have challenged the assumptions used by the Authority's valuer by reference to external evidence. We have tested the journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements. We concluded that the valuation has been accurately processed and reflected in the financial statements.
Pension Liability Valuation	We have liaised with the auditors of Buckinghamshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Buckinghamshire & Milton Keynes Fire Authority LGPS members. We assessed the work of the LGPS Pension Fund actuary (Barnett Waddingham) and the Firefighters pension actuary (also Barnett Waddingham) including the assumptions they used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considered any relevant reviews by the EY actuarial team. We reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19. We concluded that the pension liability valuation has been treated correctly in the financial statements.

Financial Statement Audit (cont'd)

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	For the main accounts, we determined planning materiality to be £662k, which is 2% of gross expenditure reported in the accounts of £33,372k. For the pension fund, we determined planning materiality to be £153k, which is 2% of benefits payable reported in the accounts of £7,745k. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority.
Reporting threshold	We agreed with the Overview and Audit Committee that we would report to the Committee all audit differences in excess of £33k for the main accounts and £7.7k for the pension fund.

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. Disclosure is numerically and politically sensitive. Therefore, the general materiality level is not felt to be appropriate. Errors in the note would be considered material. Where figures are in bandings, it is considered that a materiality of £1k as this is the rounding point in the accounts
- Related party transactions. Disclosure is numerically and politically sensitive. As the note is split between Organisations and Individuals and the accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction, we will set materiality for the Organisational element at the same level as the audit and the individuals element is to be considered on a case by case basis.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

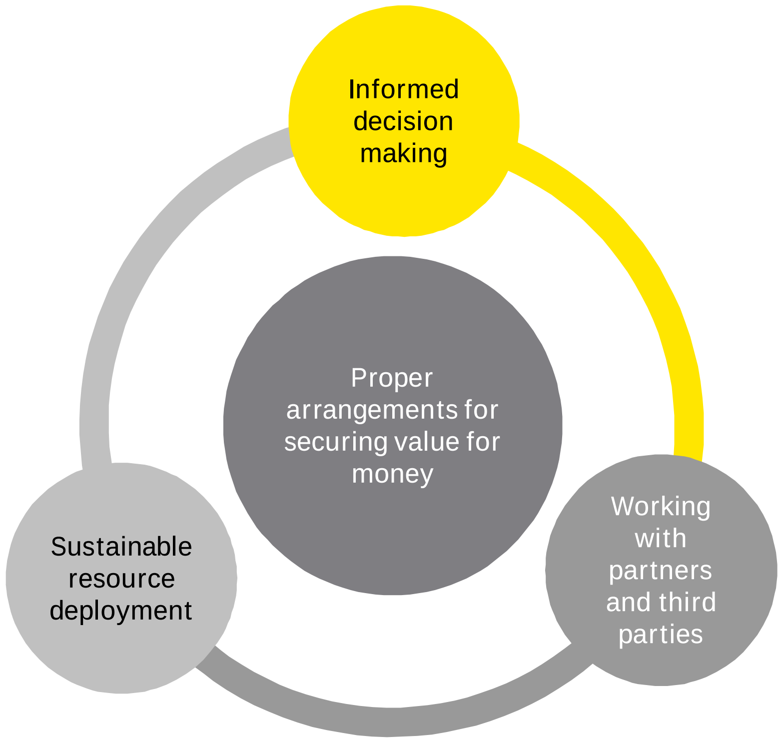
04 Value for Money

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 did not identify any significant risks in relation to these criteria

We have performed the procedures outlined in our audit plan to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

05 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Authority for Whole of Government Accounts purposes. We had no issues to report.

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 2017/18 financial statements from members 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 Overview and Audit Committee on 18 July 2018. 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.

Our audit did not identify any controls issues to bring to the attention of the Overview and Audit Committee.

06 Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Authority is summarised in the table below.

<table>
<tr><th>Standard</th><th>Issue</th><th>Impact</th></tr>
<tr><td>IFRS 9 Financial Instruments</td><td>Applicable for local authority accounts from the 2018/19 financial year and will change:
How financial assets are classified and measured;
How the impairment of financial assets are calculated; and
The disclosure requirements for financial assets.
There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</td><td>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Authority will have to:
Reclassify existing financial instrument assets;
Re-measure and recalculate potential impairments of those assets; and
Prepare additional disclosure notes for material items.</td></tr>
<tr><td>IFRS 15 Revenue from Contracts with Customers</td><td>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:
Leases;
Financial instruments;
Insurance contracts; and
For local authorities; Authority Tax and NDR income.
The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</td><td>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.

The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Authority will need to consider the impact of this on their own group accounts when that trading company is consolidated.</td></tr>
</table>

Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Authority will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Authority must therefore ensure that all lease arrangements are fully documented.

07 Audit Fees

Audit Fees

Our planned fee for 2017/18 was initially set in line with the scale fee set by the PSAA and reported in our 1 February 2018 Audit Plan. The final fee is subject to a scale fee variation due to additional work being required this year – more detail is provided below the fee table.

Description	Final Fee 2017/18 £	Planned Fee 2017/18 £	Scale Fee 2017/18 £	Final Fee 2016/17 £
Total Audit Fee – Code work	35,879*	31,379	31,379	31,379

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

* There have been delays this year due to the new accounting system in place which resulted in more cleansing of data for the analytics work. The financial statements weren't ready for the start of the audit and working papers were provided later than planned. Remuneration work was delayed to the end of the audit. These issues resulted in additional work. Key staff worked hard to respond in a timely way to the audit and this helped us minimise the disruption caused by these delays. The additional fee for this work is £4,500 and this is subject to PSAA review.

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ED None

EY-000070901-01 (UK) 07/18. CSG London.

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