

Buckinghamshire and Milton Keynes Fire Authority

Fire Authority Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

22 October 2014



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Executive summary

Key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Fire Authority - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2013-14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ As of 22 October 2014, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the matters we have to communicate, that the Fire Authority has prepared its financial statements adequately.

Value for money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ There are no issues we need to raise in the confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit completion certificate

- ▶ The audit completion certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We are not issuing the audit completion certificate at this stage. We will await the results of the Authority's investigation regarding injury pensions.

Extent and purpose of our work

The Fire Authority's responsibilities

The Fire Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Fire Authority reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Fire Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2013-14 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- Consider and report any matters that prevent us being satisfied that the Fire Authority had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion)

In addition, this report contains our findings related to the areas of audit emphasis, our views on the Fire Authority's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

This report is intended solely for the information and use of the Fire Authority. It is not intended to be and should not be used by anyone other than the specified party.

Addressing audit risks

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p>As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> ▶ Identifying fraud risks during the planning stages. ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks. ▶ Understanding the oversight given by those charged with governance of management's processes over fraud. ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud. ▶ Determining an appropriate strategy to address those identified risks of fraud. ▶ Performing mandatory procedures where we have specifically identified fraud risks. ▶ Reviewing provisions and other significant accounting estimates made by management to ensure they are reasonable. ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. 	<p>Our audit work identified no matters that we need to bring to the Authority's attention.</p>

Financial statements audit

Issues and misstatements arising from the audit

Progress of our audit

- ▶ We have completed our work programme. We propose to issue an unqualified opinion on the financial statements subject to the 22 October 2014 Fire Authority's approval of the accounts and receipt of the signed letter of representation.
- ▶ We will not be issuing our audit completion certificate at this stage. We will await the results of the Fire Authority's investigation into injury pensions.

Misstatements

- There are no uncorrected errors we are required to report.
- Our audit identified errors which management has corrected.
- We consider some of these misstatements to be significant and we set out the context and nature of them in Appendix 1 to this report.

Other Matters

- As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Fire Authority's financial reporting process including the following:
- Qualitative aspects of your accounting practices; estimates and disclosures

- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions

- Any significant difficulties encountered during the audit

- Other audit matters of governance interest

The Fire Authority should produce its Annual Governance Statement alongside the Statement of Accounts (by 30 June). The Statement was not prepared until September.

Injury pensions – ongoing payments for injury pensions awarded before April 2006 have been charged to the firefighter pension fund. The Department for Communities and Local Government (CLG) guidance indicates such expenditure should be charged to the Authority's operating account. The Authority estimates that £1.4m has been charged to the fund over the period and reimbursed by CLG. It has initiated an investigation to assess how this has happened. It is seeking legal advice to understand more fully the regulations governing the expenditure on pre-2006 awards and to ensure any reimbursement expenditure would not be unlawful. Pending the results of the investigation and receipt of the legal advice the Authority has raised a provision in its financial statements to recognise the possibility that a reimbursement will need to be made. The expenditure remains charged to the pension fund pending the review that is taking place.

We have no other matters we wish to report

Financial statements audit (continued)

Internal Control, Written Representations & Whole of Government Accounts

Internal Control

It is the responsibility of the Fire 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 Fire Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Fire Authority only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We will review the Annual Governance Statement to confirm that:

- ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework
- ▶ It is consistent with other information that we are aware of from our audit of the financial statements.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

We have no matters we wish to report.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Buckingham and Milton Keynes Fire Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Fire Authority's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 - Arrangements for securing financial resilience

- ▶ *“Whether the Fire Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”*
- ▶ We did not identify any significant risks in relation to this criteria.

We have no issues to report in relation to this criteria.

We have no other issues to report.

Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

- ▶ *“Whether the Fire Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”*
- ▶ We did not identify any significant risks in relation to this criteria.

We have no issues to report in relation to this criteria

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our 2013-14 Audit Plan.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.

If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Fire Authority on 22 October 2014.

- ▶ We confirm that we have met the reporting requirements to the Fire Authority and Overview and Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements was set out in our 2013-14 Audit Plan.

Audit fees

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

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
Total audit fee – Code work	Work in progress	£40,296	
Non-audit work	None undertaken		

- ▶ We expect to request an additional fee for the work on injury pensions and the additional audit work post 30 September 2014.

Appendix 1 - Corrected misstatements

- The following corrected misstatements have been identified during the course of our audit and warrant communicating to you.
- These items have been corrected by management within the revised financial statements.

Item of Account	Type	Balance Sheet	Statement of Comprehensive Income & Expenditure
	F, P, J	Debit/(Credit)	Debit/(Credit)
<p>The Fire Authority had its land and buildings valued at 31 March 2014 and used these valuations as at 1 April 2013. It depreciated these higher opening valuations. This overstated the depreciation and impairment in the year and understated the 31 March 2014 net book value of land and buildings.</p>			
Land and buildings	J	£0.8m	-
Unusable reserves		(£0.8m)	
Cumulative effect of uncorrected misstatement		Nil	Nil

■ **Key**

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

Appendix 1-1 - Corrected misstatements

Expenditure on pre-2006 firefighters' injury pensions

Item of Account	Type	Balance Sheet	Statement of Comprehensive Income & Expenditure
	F, P, J	Debit/(Credit)	Debit/(Credit)
<p>Injury awards payable to a firefighter attributable to a qualifying injury are not part of the Firefighters' Pension Scheme. Injury awards are outside the Firefighters' Pension Scheme and must be paid from the Fire Authority's operating account, not from the firefighters' pensions fund. The Fire Authority has complied with these requirements for injury awards since the rules were introduced in 2006 but has been charging the continuing payments for injury awards that started before 2006 to the pension fund. The Authority is investigating how this happened. It is seeking legal advice to understand more fully the regulations governing the expenditure on pre-2006 awards and to ensure any reimbursement expenditure would not be unlawful. The Fire Authority identified this issue after it prepared its financial statements in June 2014 and has amended the financial statements to disclose the impact. At this stage the financial statements recognise in a provision the possibility of having to reimburse CLG £1.4m for the cumulative relevant expenditure charged to the pension fund since April 2006. No adjustment has been made to the pension fund pending the results of the investigation and receipt of legal advice on the regulations governing expenditure on pre-2006 awards. The adjustments for provisions include prior year adjustments.</p>			
Overall impact including prior years.			
1. Provisions	F	(£1.4m)	
2. Operating costs			£1.4m
Cumulative effect of corrected misstatement		(£1.4m)	£1.4m

Appendix 1-2 - Corrected misstatements

Business rates

Item of Account	Type	Balance Sheet	Statement of Comprehensive Income & Expenditure
	F, P, J	Debit/(Credit)	Debit/(Credit)
<p>Localisation of business rates has introduced new accounting requirements to reflect the Fire Authorities share of business rates income from its five billing authorities. Code requirements were not followed. The Fire Authority reported the cash received from the billing authorities as business rates income. The Fire Authority is required to account for its share of actual business rates income and should include in its accounts its share of ratepayers' debts and prepayments; and the provision for unsettled valuation appeals. An adjustment is then required to match the impact on council taxpayers to statutory precepts received.</p>			
1. Short term creditors		(£13k)	
2. Short term debtors		£80k	
3. Long/short term provisions		(£355k)	
4. Business rates income			£288k
5. Collection fund adjustment account	F	£288k	
6. MIRs			(£288k)
Cumulative effect of corrected misstatement		Nil	Nil

Appendix 1-3 - Corrected misstatements

Council tax

Item of Account	Type	Balance Sheet	Statement of Comprehensive Income & Expenditure
	F, P, J	Debit/(Credit)	Debit/(Credit)
Billing authorities act as agents for precepting bodies. This means that precepting bodies should show in their accounts their share of the council tax transaction including taxpayers' arrears and prepayments. These are regarded as balances with the taxpayers not with the billing authority. The Authority misclassified the balances.			
Note 16 Short term debtors			
1. Other local authorities		(£288k)	
2. Other entities		£288k	
Note 18 Short term creditors	F		
1. Other local authorities		£257k	
2. Other entities		(£257k)	
Cumulative effect of corrected misstatement		Nil	Nil

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

