

# Buckinghamshire and Milton Keynes Fire Authority

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP

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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](http://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 Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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

A hand holding a blue pen is writing on a document on a desk. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image, containing the text "Executive Summary".

## Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Buckinghamshire and Milton Keynes Fire Authority (the Authority) following completion of our audit procedures for the year ended 31 March 2016.

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	Unqualified – the financial statements give a true and fair view of the financial position of the Authority and Pension Fund as at 31 March 2016 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Authority's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Authority.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Authority, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Authority's Whole of Government Accounts return (WGA).	The Authority is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Authority communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 27 July 2016.
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 27 July 2016.

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

Maria Grindley

Executive Director  
For and on behalf of Ernst & Young LLP

Purpose



## Purpose

### The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Authority.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the 27 July 2016 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



## Responsibilities

### Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 9 March 2016 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 2015/16 financial statements; and
  - ▶ on the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Authority has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ if the annual governance statement is misleading or not consistent with our understanding of the Authority;
  - ▶ any significant matters that are in the public interest;
  - ▶ any written recommendations to the Authority, which should be copied to the Secretary of State; and
  - ▶ if we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Authority is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

## Responsibilities of the Authority

The Authority is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). 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.

# 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 27 July 2016.

Our detailed findings were reported to the 27 July 2016 Overview and Audit Committee.

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

Significant Risk	Conclusion
<p>Risk of management override</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation.</p> <p>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.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.</p>
<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</p>	<p>Additional payments of £726k resulting from the Milne v GAD ruling were 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</p>

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factors. The Pension Ombudsman ruled that Government Actuary's Department (GAD) failed to review commutation factors within the firefighters' pension scheme.

The Ombudsman ordered that a new commutation factor be prepared as if a factor review had been carried out in December 2004.

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.

payments made.

Since these are material transactions, they have been appropriately shown as separate line items within the account.

We have no matters to report from this work.

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#### Joint Control Room

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.

We have received the signed agreement between the three Authorities which details the agreed upon apportionment model in place.

An additional disclosure was required within the Related Parties note to reflect the agreement in place.

We also tested the expenditure incurred from the joint control room.

We have no matters to report from this work.

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A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with some showing their edges and others showing their faces. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

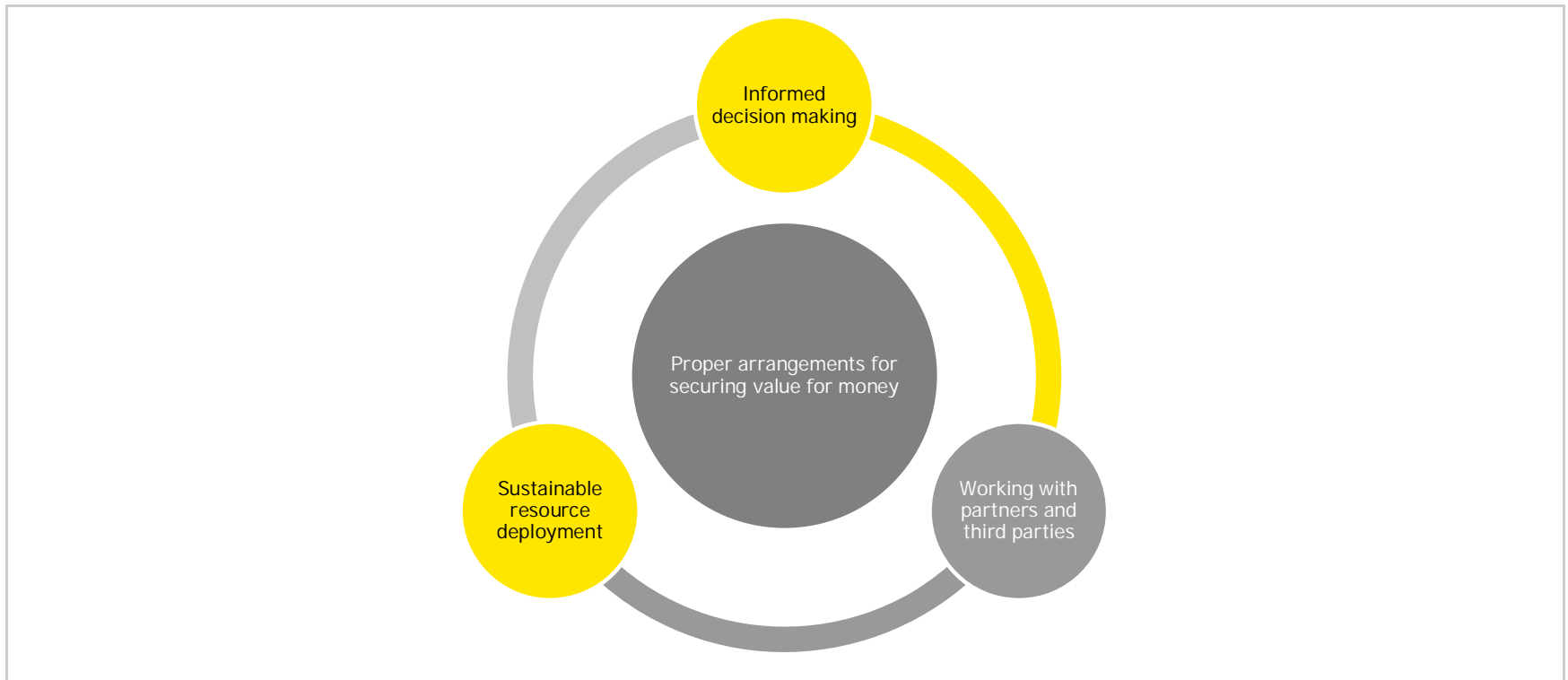
Value for Money

## Value for Money

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We issued an unqualified value for money conclusion on 27 July 2016.

We identified the following significant risk in our audit plan:

Significant risk	Conclusion
<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>We have used PSAA's value for money profile tool to assess Authority's spending against similar Fire Authorities.</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>We reviewed the Authority's financial planning to date and the latest medium-term financial plan as well as the assumptions made by the Authority in drawing up the plan. This includes a number of efficiency initiatives to reduce the budget gap in future years.</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>The Authority's strategic plan appeared reasonable.</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>	





Other Reporting  
Issues

## Other Reporting Issues

### Whole of Government Accounts

The Authority is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Authority or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

### Objections Received

We did not receive any objections to the 2015/16 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 27 July 2016. 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

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.

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are focused on the lenses, and their hands are visible holding the device. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your  
future

## Focused on your future

Area	Issue	Impact
Faster close	From the 2017/18 financial year, the deadline for preparing the Authority's financial statements will move to 31 May from 30 June. In addition, the deadline for completing the statutory audit will move to 31 July from 30 September.	<p>The faster closedown timetable requires the Authority to adjust its timetable for preparing the accounts, and may impact on the budget setting process and the timing of committee meetings.</p> <p>It requires upfront planning to identify areas of the accounts that can be prepared earlier, before the 31 March, and there will be a need to establish robust basis for estimations across a wider number of entries in the financial statements.</p> <p>In 2015/16 the Authority met the timelines for having audited statements by the end of July 2016 which is a great achievement.</p> <p>For the 2016/17 audit, we are working with officers to identify more ways in which we can support and embed the transition ahead of the new deadlines in 2017/18.</p>

Appendix A

## Audit Fees



## Appendix A Audit Fees

Our fee for 2015/16 is in line with the scale fee set by the PSAA and reported in our 27 July 2016 Audit Results Report.

Description	Final Fee 2015/16 £	Planned Fee 2015/16 £	Scale Fee 2015/16 £	Final Fee 2014/15 £
Total Audit Fee – Code work	31,379	31,379	31,379	41,838

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

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ED None

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