

Essex Fire Authority
Audit results report

Year ended 31 March 2017



EY

Building a better
working world

Private and Confidential

14 July 2017

Dear Policy and Strategy Committee Members

We have substantially completed our audit of Essex Fire Authority (the Authority) for the year ended 31st March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section O3, before the statutory deadline, and following the approval of the financial statements by this Committee in July. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Policy and Strategy Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Kevin Suter
Executive Director

For and on behalf of Ernst & Young LLP

United Kingdom

Contents

01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the 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 September 2015)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Policy and Strategy Committee, other members of the Authority and management of Essex Fire Authority in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Policy and Strategy Committee, other members of the Authority and management of Essex Fire Authority those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Policy and Strategy Committee, other members of the Authority and management of Essex Fire Authority for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.



01

Executive Summary



Executive Summary

Overview of the audit

Scope and materiality

In our Audit Plan presented to the 19th April 2017 Audit, Governance and Review Committee meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £1.958 million. We reassessed this using the actual year-end figures, which has slightly decreased this amount to £1.917 million. The threshold for reporting audit differences has decreased from £97,900 to £95,876. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross revenue expenditure.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- The firefighters' pension fund statement
- Remuneration disclosures including any severance payments, exit packages and termination benefits.
- Related party transactions.

Status of the audit

We have substantially completed our audit of Essex Fire Authority's financial statements for the year ended 31st March 2017 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at section O3. However until work is complete, further amendments may arise:

- Completion of testing on asset valuations
- Following up queries raised with our technical team on IAS19 transactions and pensions assumptions
- Completing our review of the Narrative Report
- Clearance of remaining audit queries
- Final Director and Manager review of the completed audit work
- Review of the final version of the financial statements
- Completion of subsequent events review
- Receipt of the signed accounts and management representation letter



Executive Summary

Executive summary (continued)

Status of the audit (continued)

We expect to issue the audit certificate at the same time as the audit opinion.

Audit differences

To date, there are no unadjusted audit differences arising from our audit. Adjusted audit differences are set out in Section 04 of this report.



Executive Summary

Executive summary (continued)

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Essex Fire Authority's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure.

An area of audit focus which we included in the audit plan was the introduction of the Expenditure and Funding Analysis and the restatement of the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement. Officers provided us with an early draft of their proposed changes which we reviewed in April. Following further guidance and technical review of the disclosures, further audit adjustments were requested during our final accounts work in July to ensure that the format of the disclosures were in line with the CIPFA code. These adjustments led to expenditure being reclassified on the Comprehensive Income and Expenditure Statement but did not impact on total gross expenditure or the general fund. We agreed with the Authority's assessment that it reports as a single segment, and agreed the restated comparative figures back to the Authority's segmental analysis and supporting working papers.

We summarise our consideration of all other key areas of focus, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no other matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Committee.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan we identified the following significant risks:

- Sustainable resource deployment: Achievement of savings needed over the medium term, as the Authority's efficiency plans have determined that the financial challenge before efficiencies for the four years from 2016-17 to 2019-20 is £14.7 million.
- Working with Strategic Partners: Police and Fire collaboration within Essex, following the public consultation on the potential change in the way Essex County Fire & Rescue Service is governed, which was launched on 16 February 2017 by the PCC for Essex.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.



Executive Summary

Executive summary (continued)

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

The Authority falls below the threshold for performing procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. Therefore, we will report to the NAO on this basis.

We have no other matters to report.

Control observations

We have adopted a fully substantive approach, and so have not tested the operation of controls. We have, however, updated our understanding of key processes and the controls which are in place to detect or prevent error. Through this work, 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 and which is unknown to you.

During the audit we identified one observation and/or improvement recommendation for management's financial processes and controls which we have noted in section 07.

Independence

Please refer to Appendix B for our update on Independence. We have no independence issues to bring to your attention.





02 Areas of Audit Focus





Areas of Audit Focus

Audit issues and approach: Fraud in revenue recognition

Risk of fraud in revenue and expenditure recognition


What are our conclusions?

Our testing has not identified any material misstatements from the incorrect capitalisation of expenditure items.

What is the risk?

Risk of fraud in revenue and expenditure recognition
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting council, which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition.

Fire authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of fraud in revenue recognition.

 Significant Risk

What did we do?

We considered whether or not revenue spend had been appropriately capitalised by testing a sample of additions to property, plant and equipment to ensure these were correct to be included as assets on the balance sheet.



Areas of Audit Focus

Audit issues and approach: Management override

Management override of controls

What are our conclusions?


From our work completed to date:

- We have not identified any material weaknesses in controls or evidence of material management override of controls.
- 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

What is the risk?

Risk of management override of controls

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

 Significant Risk

What did we do?

Our testing of journal entries to date has not identified adjustments which were outside of the normal course of business. All journals tested have an appropriate business rationale.

We reviewed accounting estimates for evidence of management bias and did not identify any instances where inappropriate judgements were being applied.

We performed sample testing on additions to the property, plant and equipment balance and found that these items met the relevant accounting requirements to be capitalised.



Areas of Audit Focus

Audit issues and approach: Financial statements presentation

Expenditure and funding analysis and Comprehensive income and expenditure statement

What are our conclusions?

The work we have completed to date has found that:

- adjustments were required to ensure the disclosures were in line with the CIPFA Code. This will be corrected by management in the final version of the financial statements
- the restated comparative figures agreed to the Authority's segmental analysis and supporting working papers with no issues noted

What is the risk?

Financial statement presentation
Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The service analysis should be based on the organisational structure under which the Authority operates. We expect this to reflect the Authority's segmental analysis.

This change in the code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015-16 comparatives will require audit review, which could potentially result in additional costs, depending on the complexity and manner in which the changes are made.

What did we do?

We reviewed the draft expenditure and funding analysis, restated CIES and associated notes.

Following our review in April of the proposed changes, further guidance was issued and audit adjustments were requested to ensure that the format of the disclosures were in line with the CIPFA code.

We agreed with the Authority's assessment that it reports as a single segment, and agreed the restated comparative figures back to the Authority's segmental analysis and supporting working papers.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ESSEX FIRE

Opinion on the Authority financial statements

We have audited the financial statements of Essex Fire Authority for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow Statement;
- Related notes 1 to 38 to the Core Accounting Statements; and
- Include the firefighters' pension fund financial statements comprising the: Fund Account; Net Assets Statement and the related notes 1 to 2.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Essex Fire Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Finance Director and Treasurer and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 10, the Finance Director and Treasurer is responsible for the preparation of the Authority's financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on



Audit Report

Draft audit report (continued)

Our opinion on the financial statements (cont.)

Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Finance Director and Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the 2016/17 Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Essex Fire Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.



Audit Report

Opinion on other matters

In our opinion, the information given in the 2016/17 accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on Essex Fire Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Audit Report

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether the Essex Fire Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Essex Fire Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Essex Fire Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, Essex Fire Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the accounts of Essex Fire Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Kevin Suter (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Luton
TBC July 2017

The maintenance and integrity of the Essex Fire Authority web site is the responsibility of the Authority; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04

Audit Differences



Audit Differences

Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements in the financial statements or disclosures identified during the audit. These will be corrected by management in the final statement of accounts:

- The Comprehensive Income and Expenditure Statement (CIES) was restated following changes to the Code and the introduction of the new Expenditure and Funding Analysis in 2016/17. However, amounts on the CIES in the draft statement of accounts were misclassified between headings in the expenditure section. The following adjustments were made, but do not impact total gross expenditure or the general fund:
 - Depreciation of £4.513 million was moved from Premises & Equipment to Depreciation, amortisation & impairment
 - The provision for capital financing of £3.623 million was removed from the Statutory provision for Capital Financing and from Financing items
 - Pensions costs of £2.672 million (£3.585 million relating to firefighters and -£0.913 million relating to support staff) were moved from Other costs & services to Employment costs
 - Revaluations of property, plant and equipment of -£2.272 million were moved from Other costs & services to Depreciation, amortisation & impairment
 - Ill health pension costs of £2.201 million were moved from Ill health pension costs to Firefighters' Employment costs.
- There was a misclassification of £2.105 million on the 2015/16 comparative balance sheet between Surplus Assets and Land and buildings. This did not have an impact on the total value of long term assets on the balance sheet.
- The disclosure in note 21.1 Revaluation Reserve was not compliant with the Code and adjustments were required to the table. This did not have an impact on the presentation within the balance sheet.

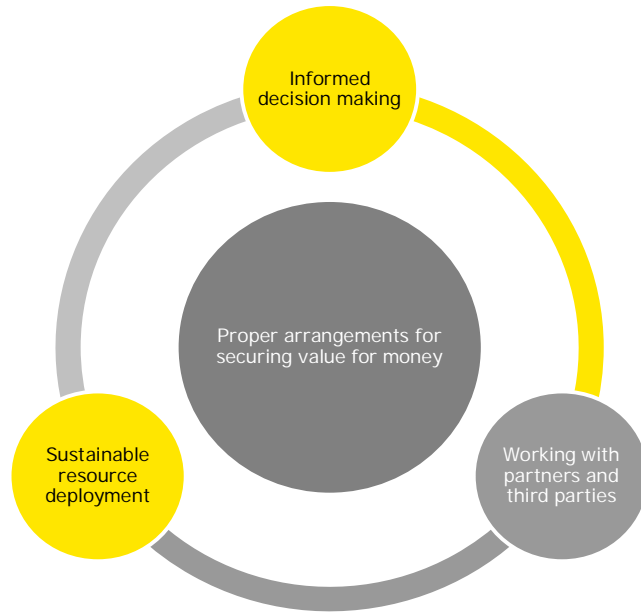
There were no uncorrected misstatements.



05 Value for Money



Value for Money



Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your 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.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

Overall conclusion

We identified two significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Plan and any other significant weaknesses or issues we want to bring to your attention.

We anticipate reporting that, in all significant respects, Essex Fire Authority put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

VFM risks

We are only required to determine whether there is any risk that we consider significant within the Code of Audit Practice, where risk is defined as:
“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”
 Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.
 We did not identify any significant risks in our risk assessment.

What is the significant VFM risk?

What arrangements did this affect?

What are our findings?

Achievement of savings needed over the medium term
 The Authority faces significant financial challenges and has identified that they will face an £5.9 million reduction in revenue support grant from 2016-17 to 2019-20. Their efficiency plans have determined that the financial challenge before efficiencies for the four years from 2016-17 to 2019-20 is £14.7 million.
 Given the scale of the savings needed, there is a risk that savings plans to bridge this gap are not robust and/or achievable.
 The Authority has recognised this challenge as part of its options for change, through Programme 2020.

Deploying resources in a sustainable manner

We have considered the:

- robustness of any assumptions used in the 2017-18 annual budget;
- Authority’s progress in identifying sources of savings and efficiencies to meet the pressures of future reductions in funding, taking into account any relevant information from Programme 2020; and
- adequacy of future levels of reserves.

We have concluded that the Authority’s arrangements are adequate.

Police and Fire collaboration within Essex
 The Policing and Crime Act 2017 received Royal Assent on 31 January. The Bill makes provision for collaboration between the emergency services and allows police and crime commissioners to govern fire and rescue services as well as police.
 The new Policing and Crime Act 2017 offers the opportunity to transform local fire and rescue governance, enabling police and crime commissioners to govern the fire and rescue authority where a strong local case is made.
 On 16 February 2017, the PCC for Essex launched a public consultation on the potential change in the way Essex County Fire & Rescue Service is governed.
 The public consultation closes on 10 May 2017 and the PCC’s proposal for future arrangements within Essex will be sent to the Home Secretary, with a formal decision expected to be made in June 2017. Legal approval is expected to be received in September 2017 and the changes will take effect on 1 October 2017.

Working with partners and other third parties

We have considered the:

- governance arrangements put in place within Essex Fire Authority to consider such a significant potential transition programme, leading to the development of the proposal to the Home Secretary.

We have concluded that the Authority’s arrangements are adequate.



Other matters to bring to your attention

We noted the following issues as part of our value for money conclusion assessment

What are our findings?

On 8th June 2016, Essex Fire Authority resolved to support Option 2 of the proposals put forward for Programme 2020, which initiated a programme of change to support the Authority's strategic priorities. Option 2 proposed a 2% increase (about £1.35 on a Band D property per year) in the fire service portion of Council Tax and a smaller reduction in response resources. The implementation plan for the changes was approved by Essex Fire Authority on 7th September 2016 and the proposals have started to be implemented with the removal of second appliances, relocation of staff and recruitment of on-call crews. Changes in the performance management framework and new performance measures and reporting have also been implemented.

The Authority's Efficiency Plan is based on the assumption that Council Tax will increase by 2% annually until 2019/20, in line with Option 2 of Programme 2020. The Efficiency Plan recognises that the financial challenge before efficiencies is £11.3 million from 2017/18 to 2019/20. Efficiency savings from reducing pay costs relating to operational response and support costs are expected to be £10.6 million, reducing the budget pressure to £0.7 million from 2017/18 to 2019/20. The Authority has resolved to use reserves to balance the budget due to the time in which it takes for new staff to be recruited and trained to become on-call firefighters. The Efficiency Plan includes a total use of earmarked reserves of £0.95 million during 2017/18 and 2018/19 for this purpose. It is expected that by 2019/20 the Authority's net forecast position will be a surplus of £0.24 million after efficiency savings. General fund and earmarked reserves are expected to remain at £12 - £13 million from 2017/18 and 2019/20.

The Authority's actual net expenditure outturn position for 2016/17 was £71.309 million, an overspend of £5,000 against the latest approved budget of £71.304 million. The outturn position includes the use of £1.6 million of capital receipts to support the statutory provision for capital financing. This allowed expenditure to be released to fund additional costs, mainly on one-off costs of early exit options to reduce wholtime firefighter numbers, as agreed in the Efficiency Plan. General fund and earmarked reserves remained stable at £12.213 million at 31 March 2017.

The Police and Crime Commissioner for Essex undertook a 12 week consultation with the public, top tier local authorities, police and fire & rescue staff and wider stakeholders from 16th February to 10th May 2017. The Local Business Case assessed the options, as set out in the Policing and Crime Act 2017, for changes to governance of the Fire Service. Letters of support were received from all three top tier local authorities; three letters were received signed by 17 Essex MPs and 1,708 responses were received from the public. The consultation results show that the joint governance option scored the highest in terms of potential benefits and ease of delivery. The final version of the Local Business case was submitted to the Home Secretary on 19th May 2017. It is expected that the necessary Statutory Instruments to change the arrangements will be in place for 1st October 2017. Planning for the transition has commenced and committees have been set up to monitor and review this work, including an Emergency Services Strategic Governance Board and Transition Working Group. Senior officers and members from Essex Police and Essex Fire are involved in these committees. A project plan is under development, which will detail what needs to be completed to achieve a clean and smooth transition with the timescale. Key activities include the development of a revised constitution, review of the governance structure, a formal staff consultation and development of a communication strategy.



06

Other reporting issues



Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the 2016/17 Accounts with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

We are completing our review of the information presented in the Narrative Report for consistency with our knowledge of Essex fire Authority. We do not anticipate that there will be any matters to report as a result of this work. We will provide an update to the Policy and Strategy Committee at the meeting on 26th July 2017.

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, is specified by the National Audit Office.

The Authority falls below the threshold for performing procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. Therefore, we will report to the NAO on this basis.



Other reporting issues

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues that would require us to make such a recommendation.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. This has included consideration of the following:

- 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 that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related party disclosures;
- External confirmations;
- Going concern considerations;
- Consideration of laws and regulations; and
- Group accounts requirements

We have no such matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Assessment of control environment

Financial controls

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.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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.

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.

Our testing of entity level controls did however identify that the HBS system, which is used for recording retained firefighters' hours, does not have any automated controls for segregation duties. This means that the same person can both input and authorise the hours they have worked.

We understand that mitigating detection controls are in place through budget monitoring and management review and challenge of the hours worked.

We understand that this is in contravention of HR policies and that a new system is to be implemented during 2017/18, which will include automated controls. However, we recommend that existing staff are reminded of the HR policies and that recording and authorisation of hours should be carried out by different people.

The matters reported here are limited to those deficiencies identified during the audit and important enough for us to report to you.

The table below provides an overview of the observations we have from the 2016/17 audit.

	High	Moderate	Low	Total
Open at July 2016	0	0	0	0
Closed during FY17	0	0	0	0
New points raised in FY17	0	1	0	1
Total open points as at July 2017	0	1	0	1

- Key:
- A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.
 - Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within 6 months.
 - Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within 3 months.

A close-up photograph of a person's hand sorting through a filing cabinet. The hand is reaching into a row of folders, touching the top of one. The folders are filled with papers, some of which are white and some are yellow. The background is a light-colored, textured wall.




08 Appendices



Appendix A




Required communications with the Policy and Strategy Committee

There are certain communications that we must provide to the Policy and Strategy Committee and audit committees of UK clients. We have done this by:

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Policy and Strategy Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	Audit Plan presented to 19 th April 2017 Audit, Governance and Review Committee
Significant findings from the audit	<ul style="list-style-type: none"> • Our view of 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 that were discussed with management • Written representations we have requested • Expected modifications to the audit report • Any other matters significant to overseeing the financial reporting process • Findings and issues around the opening balance on initial audits (delete if not an initial audit) 	Audit Results Report presented to 26 th July Policy and Strategy Committee meeting
Going concern	<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 together to raise any doubt about Essex Fire Authority's ability to continue for the 12 months from the date of our report
Misstatements	<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 ▶ Significant corrected misstatements, in writing 	Audit Results Report presented to 26 th July Policy and Strategy Committee meeting







Appendix A

		 Our Reporting to you
Required communications	What is reported?	  When and where
Fraud	<ul style="list-style-type: none"> ▶ Asking the audit committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Audit Committee responsibility. 	<p>We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit</p>
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, where 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/or regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	<p>We have no matters to report</p>
Subsequent events	<ul style="list-style-type: none"> ▶ Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements. 	<p>Audit Results Report presented to 26th July Policy and Strategy Committee meeting</p>
Other information	<ul style="list-style-type: none"> ▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision. 	<p>We have no matters to report</p>
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ We were unable to obtain relevant and reliable audit evidence from other procedures. 	<p>We have received all requested confirmations</p>
Consideration of laws and/or regulations	<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" ▶ Asking the Governance, Performance and Audit Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Governance, Performance and Audit Committee. 	<p>We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations</p>



Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit Results Report presented to 26 th July Policy and Strategy Committee meeting
Independence	<p>Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.</p> <p>Communicating 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 on the firm's general policies and processes for maintaining objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,</p>	<p>Audit Plan presented to 19th April 2017 Audit, Governance and Review Committee</p> <p>Audit Results Report presented to 26th July Policy and Strategy Committee meeting</p>
Fee Reporting	<p>Breakdown of fee information when the audit plan is agreed</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work</p>	<p>Audit Plan presented to 19th April 2017 Audit, Governance and Review Committee</p> <p>Audit Results Report presented to 26th July Policy and Strategy Committee meeting</p>



Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report presented to 19th April 2017 Audit, Governance and Review Committee.

We complied with the APB Ethical Standards and the requirements of the 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 consider that our independence in this context is a matter which you should review, as well as us. It is important that Management and the Policy and Strategy Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Policy and Strategy Committee on 26th July 2017.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

Description	Final Fee 2016/17	Planned Fee 2016/17	Scale Fee 2016/17	Final Fee 2015/16
Total Audit Fee - code work	£35,625	£35,625	£35,625	£35,625





Appendix C

Accounting and regulatory update

Accounting update

Since the date of our last report to the Policy and Strategy Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Essex Fire Authority 
<i>IFRS 9 Financial Instruments</i>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> • How financial assets are classified and measured • How the impairment of financial assets are calculated • Financial hedge accounting • The disclosure requirements for financial assets. <p>Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty.</p> <p>However, what is clear is that the Authority will have to:</p> <ul style="list-style-type: none"> • Reclassify existing financial instrument assets • Re-measure and recalculate potential impairments of those assets; and • Prepare additional disclosure notes for material items
<i>IFRS 16 Leases</i>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard, the new standard will have a significant impact for local authorities who lease in a large number of assets, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Authority will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Authority is has yet to commence work in this area due to the timing of implementation.</p>




Appendix C

Accounting and regulatory update (continued)

Regulatory update

The following table provides a high level summary of the regulatory developments that have the most significant impact on you:

Name	Summary of key measures 	Impact on Essex Fire Authority
<i>Policing and Crime Act 2017</i>	The key measures summarised here are those that are likely to have implications for the audit of the financial statements and the VFM conclusion: <ul style="list-style-type: none">• Increase in emergency services collaboration between police bodies, ambulance and fire and rescue services	<ul style="list-style-type: none">• Powers introduced to allow increased collaboration between emergency services The Authority has already started to plan for this significant change and we will consider the impact on the financial statements and our VFM conclusion as part of planning for the 2017/18 audit.



Appendix D

Management representation letter

Management Rep Letter

Essex Fire Authority
Audit for the year ended 31 March 2017

This representation letter is provided in connection with your audit of the financial statements of Essex Fire Authority ("the Authority") for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Essex Fire Authority as of 31 March 2017 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and of its expenditure and income of the Authority in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Authority has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 that are, free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.



Appendix D

Management Rep Letter (cont.)

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Authority's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Authority.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
 - Additional information that you have requested from us for the purpose of the audit and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes and papers of the meetings of the Authority, its Audit, Governance and Review Committee and Policy and Strategy Committee held through the year to the most recent meeting held on 26th July 2017.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Authority's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable
6. We have disclosed to you, and the Authority has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and disclosed all liabilities, related litigation and claims, both actual and contingent and have disclosed in Note 37 to the financial statements all guarantees that we have given to third parties.
4. No other claims in connection with litigation have been or are expected to be received.



Appendix D

Management Rep Letter (cont.)

F. Subsequent Events

1. Other than the events described in Note 5 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative report and the Governance Statement 2016/17.

2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Ownership of Assets

1. Except for assets capitalised under finance leases, the Authority has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Authority's assets, nor has any asset been pledged as collateral. All assets to which the Authority has satisfactory title appear in the balance sheet.

2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.

3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. We have no other line of credit arrangements.

I. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

J. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except as follows:

- Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities, etc., none of which involves any allegations of noncompliance with laws or regulations that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.



Appendix D

Management Rep Letter (cont.)

K. Purchase and Sales Commitments and Sales Terms

1. Losses arising from purchase and sales commitments have been properly recorded and adequately disclosed in the financial statements.
2. At the 31 March 2017, the Authority had no unusual commitments or contractual obligations of any sort which were not in the ordinary course of business and which might have an adverse effect upon the Authority (e.g., contracts or purchase agreements above market price; repurchase or other agreements not in the ordinary course of business; material commitments for the purchase of property, plant and equipment; significant foreign exchange commitments; open balances on letters of credit; purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices; losses from fulfillment of, or inability to fulfill, sales commitments, etc.).

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the measurement and valuation of Property and the Pension Fund and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

M. Accounting Estimates (property, plant and equipment and pensions valuations)

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We confirm that the significant assumptions used in making the estimates for property, plant and equipment and pensions appropriately reflect our intent and ability to carry out providing fire services on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.



Appendix D

Management Rep Letter (cont.)

N. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours Faithfully,

.....
Mike Clayton
Finance Director and Treasurer

.....
Councillor Anthony Hedley
Chair of Policy and Strategy Committee

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2017 EYGM Limited.
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com