

Essex 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)

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 with white nail polish is writing on a document with a blue pen. 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.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Essex 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: ▶ Financial statements | Unqualified – the financial statements give a true and fair view of the financial position of the Authority 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 9 September 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 29 September 2016 |

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

Kevin Suter

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 21 September 2016 Policy & Strategy 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 31 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. 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.

The background is a blurred office scene. In the foreground, there are several glasses of water on a wooden desk. Behind them, a laptop screen displays a financial chart. To the left, there are some papers and a pen. The overall lighting is bright and natural, suggesting a window in the background.

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'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 29 September 2016.

Our detailed findings were reported to the 21 September 2016 Policy & Strategy Committee.

The Authority met the key statutory deadlines, with a good quality set of accounts and supporting working papers.

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

| Significant Risk | Conclusion |
|---|--|
| <p>Management override of controls</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 carried out testing on journals processed during the year, including testing for:</p> <ul style="list-style-type: none">- references to senior staff in the description;- unusual account combinations;- capital postings from revenue; and- key words included in the description. <p>We consider the key accounting estimates to be the valuation of property, plant and equipment assets, and your pension liability. We considered the estimations to be reasonable.</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> |

Revenue and expenditure recognition

Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.

We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.

For fire authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

Our testing did not reveal any material misstatements with respect to revenue and expenditure recognition.

Our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Authority's financial position.

Our work on expenditure testing, accounting estimates and capital expenditure did not identify any further issues or matters for reporting.

Milne v Government Actuaries Department (GAD)

Following the determination of the case of Milne v GAD in May 2015 by the Pensions Ombudsman, Essex Fire Authority is required to make payments to those individuals affected by the judgement.

This case centred on whether GAD had a proactive responsibility to review the commutation factors used in the calculation of the lump sum payments made to pensioners when they opt to take an increased amount of their pension benefit in that form.

The total value of payments which are due to be paid before 31 March 2016 is expected to be material. The payments are expected to be funded by the Department for Communities and Local Government (DCLG) through the top up grant. Therefore there will be no overall impact on the financial position of the Authority. The accounting arrangements for these payments have not yet however been determined.

We carried out the following procedures:

- Tested a sample of payments made to affected individuals during 2015-16; and
- Reviewed the accounting treatment and associated disclosures within the Authority's statement of accounts as well as in the Firefighters' Pension Fund Account.

Our work on payments did not reveal any material misstatements or identify any issues or matters for reporting.

Our review of the income received, accounting treatment and associated disclosures found that the transactions had been correctly disclosed in the financial statements of the Authority and the Firefighters' Pension Fund.



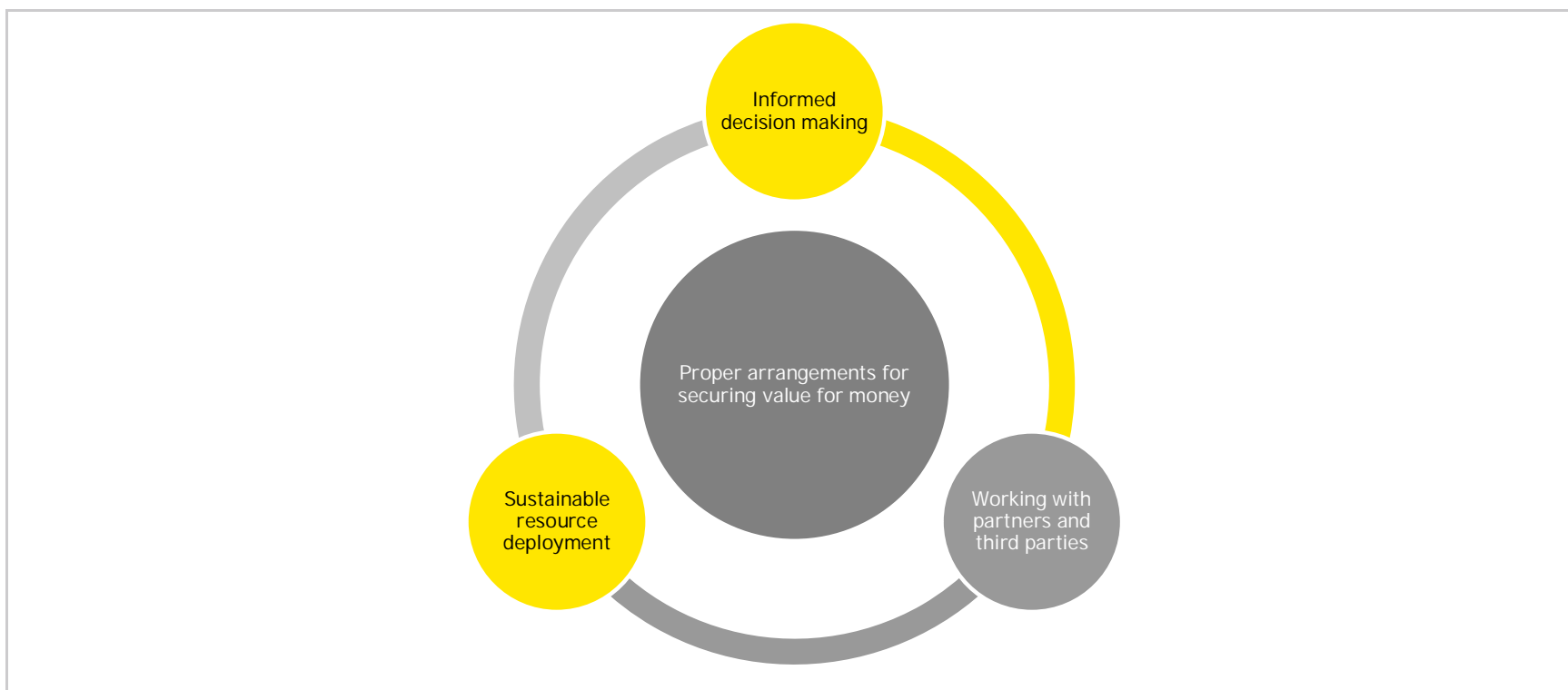
Value for Money

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 29 September 2016.

Our audit did not identify any significant matters in relation to the Authority's arrangements. We based our conclusions on the following key findings.

Key Findings

Programme 2020

- Ø Essex Fire Authority commenced Programme 2020 in February 2016 and generated a range of options, of which three were approved for wider consultation.
- Ø On 8 June 2016, the Fire Authority resolved to support the proposals included in Option 2, which was overwhelmingly supported in the consultation. 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.
- Ø The proposals have started to be implemented with the removal of second fire engines from operational service at some fire stations and transition of crewing arrangement to On-Call.
- Ø The decision, and implementation, gives us assurance that the arrangements put in place before the 31 March 2016 were adequate.
- Ø As part of Programme 2020, the Authority wants to avoid or minimise compulsory redundancies. Therefore, eligible uniformed staff have been offered an early exit opportunity. However, this will put pressure on the budget in the short-term.
- Ø The option includes proposals to broaden the role of firefighters and invest in prevention and protection. The Authority is also seeking different ways in working in partnerships with other agencies, such as CCGs and developing plans for further collaboration with Essex Police.

Budget and efficiency plans

- Ø The Authority's efficiency plans are based on the assumption that Council Tax will increase by 2% annually until 2019/20. However, the Authority has recognised in its efficiency plans that it still faces financial challenges of £14.7 million from 2016/17 to 2019/20.
- Ø As well as operational effectiveness, Programme 2020 considers the financial position. Plans indicate that the reduction in the number of fire engines and the crewing changes will generate a net £6.4 million of savings by 2020. Further savings of £2 million have been identified from areas such as management review during 2016/17 and collaboration and integration from 2017. The total savings assumptions reduce the budget pressure to £2.7 million from 2016/17 to 2019/20.
- Ø In order to balance the budget, the Authority has resolved to use reserves to support the one-off costs of early exit options in 2016/17 and the transition to On-Call firefighters in 2017/18 and 2018/19. The efficiency plans include annual transfers to reserves of £0.303 million to normalise reserves and ensure they remain at a stable level of £12 - £13 million between 2016/17 and 2019/20.

Independent Cultural Review

- Ø Irene Lucas CBE conducted a review into organisational culture at Essex County Fire and Rescue Service during 2015. Her final report and recommendations were published in September 2015. The report set out 35 recommendations, one of these being that a progress review should be undertaken.
- Ø Essex Fire Authority invited Sir Ken Knight to undertake this work, which was conducted at the end of July. The report concluded that:

I am satisfied that Essex Fire Authority (the Authority) and Essex County Fire and Rescue Service (the Service) have taken, and are continuing to take, appropriate early actions to deliver against the Lucas Review recommendations. Appropriate consideration has been given to the fundamental issues and the Authority is on track to deliver against the recommendations in a timely manner. However, while good progress has been made in respect of laying groundwork and foundations, there is still some way to go to build on this work and embed change throughout the Authority and Service.

There remains significant scope for the lessons to be learned from the work that the Authority and the Service have undertaken to address organisational culture to be shared more widely with other fire and rescue services.

Some specific areas remain uncertain and are undoubtedly hindering some of the necessary progress; particularly in relation to ongoing historical employment issues. Whilst it can be tempting to demand immediate resolution of these matters; it is important that due process is allowed to continue in order to ensure that all matters are dealt with fairly; particularly given their complex nature. For this reason it is necessary for a progress review to be completed during the autumn of 2016 to seek an update on resolution of historical employment issues.



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 member 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 Policy & Strategy Committee on 21 September 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

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We had no such matters to bring to your attention.

A close-up, shallow depth-of-field photograph of a person's hands holding binoculars. The person's face is blurred in the background, focusing attention on the binoculars and the hands. 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 |
|---------------|--|--|
| EU referendum | <p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&P, Fitch and Moody's) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p> | <p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions.</p> <p>We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market.</p> |

Appendix A

Audit Fees



Appendix A Audit Fees

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

| Description | Final Fee 2015/16 £ | Planned Fee 2015/16 £ | Scale Fee 2015/16 £ |
|-----------------------------|------------------------|--------------------------|------------------------|
| Total Audit Fee – Code work | 35,625 | 35,625 | 35,625 |

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

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

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ED None

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