

Royal Berkshire Fire Authority

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

September 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 Audit Results Report is prepared in the context of the Statement of Responsibilities. This report is intended solely for the use of the members of the audited body. 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.

1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit and Governance Committee – on the work carried out to discharge our statutory audit responsibilities, together with any governance issues identified. This report summarises findings from the 2015/16 audit, which is substantially complete. It includes messages arising from our audit of the financial statements and the results of our work to assess arrangements to secure economy, efficiency and effectiveness in the Authority's use of resources.

We show below the results and our conclusions on the significant areas of the audit.

Status of the audit	<p>We have substantially completed our audit of the financial statements for the year ended 2015/16. Subject to satisfactory completion of the outstanding items included in Appendix B:</p> <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the financial statements.</p> <p>We expect to conclude that the Authority has put in place proper arrangements to secure value for money in its use of resources.</p> <p>The Authority is below the reporting thresholds for income, expenditure, assets and liabilities for Whole of Government Accounts purposes so our work on this is limited to reporting that fact to the NAO once the final Whole of Government Accounts return has been submitted.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
Audit differences	<p>There are no unadjusted audit differences.</p> <p>Our audit identified several audit differences which our team have highlighted to management for amendment. These have been corrected during the audit and further details are provided at Appendix A.</p>
Scope and materiality	<p>In our audit plan presented at the 23 March 2016 Audit and Governance Committee meeting, we set materiality of £792k when deciding on our audit procedures. We have reassessed this based on the Authority's actual results and have increased this amount to £802k. The reason for the increase in planning materiality was higher operating expenditure in 2015/16 comparing to the Authority's 2014/15 outturn.</p> <p>The basis of our assessment is 2% of gross operating expenditure, which is consistent with prior years.</p> <p>The threshold for reporting uncorrected audit differences which have an impact on the financial statements has remained the same at £39k.</p> <p>For the Firefighters' Pension Fund we establish a separate materiality. The level of materiality was £95k based on 1% of benefits payable in 2015/16.</p>
Significant audit risks	<p>We identified the following audit risks during our planning, and reported them in our audit plan:</p> <ul style="list-style-type: none"> • The accounting for Milne vs GAD

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- The accounting for the Joint Control Room
 - The risk of management override.

 - Value for Money – The risk that the Authority will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues during the audit.

Other reporting issues	We have no other matters to report.
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Control observations	We have adopted a fully substantive approach and have therefore not tested the operation of controls.
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We would like to take this opportunity to thank the Authority's staff for their assistance during the audit.

Maria Grindley

Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Authority's responsibilities

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Authority reports publicly on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements, and any planned changes in future.

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

Purpose of our work

Our audit was designed to:

- express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- report by exception on the AGS;
- consider and report any matters that prevent us being satisfied that the Authority had proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion); and
- discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

This report also contains our findings on any areas of audit emphasis and our views on any significant deficiencies in internal control or the Authority's accounting policies and key judgements.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office. For the Authority this work is limited to confirming that the Authority falls below the reporting thresholds for income, expenditure, assets and liabilities.

3. Financial statements audit

Addressing audit risks

We identified the following audit risks when we planned our audit, and reported them in our Audit Plan. We set out below how we have gained the necessary audit assurance.

A significant audit risk is an inherent risk which is both more likely to happen and has a greater effect if it does happen; so it requires special audit consideration. For significant risks, we obtain a relevant understanding of the entity's controls and assess their design and implementation.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<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 factors. The Pension Ombudsman ruled that Government Actuary's Department (GAD) failed to review commutation factors within the firefighters' pension scheme.</p> <p>The Ombudsman ordered that a new commutation factor be prepared as if a factor review had been carried out in December 2004.</p> <p>The Authority has determined the additional payments required. The sum of these payments is estimated to be £1,088k which is material to the Pension Fund.</p>	<p>We:</p> <ul style="list-style-type: none"> • Reviewed and tested the Authority's arrangements for ensuring the accuracy and completeness of compensation; • Re-performed the calculation of compensation for a sample of payments, including assessment of the accuracy of inputs; and • Reviewed the associated disclosures in the financial statements to ensure compliance with the Code of Practice on Local Government Accounting, and appropriate accounting standards. 	<p>Additional payments of £1,139k resulting from the Milne v GAD ruling was 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 payments made. We have no matters to report from this work.</p> <p>The manner of the disclosure was not subject to additional guidance, however, payments to pensioners and subsequent reimbursement by Central Government had not been split out from other lines within the Pension Fund Account. As these are material items they need to be shown separately. This adjustment is detailed within Appendix A.</p>
<p>Joint Control Room</p> <p>The Joint Control Room (with Oxfordshire Fire and Rescue Service and Buckinghamshire and Milton Keynes 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.</p>	<p>We:</p> <ul style="list-style-type: none"> • Reviewed the agreements in place between the three bodies; • Reviewed associated disclosures made within the financial statements to ensure compliance with the Code of Practice on Local Government Accounting, and appropriate accounting standards; and • Tested a sample of income and expenditure related to the Joint Control Room and ensure that it has been appropriately recharged to the Authority. 	<p>We have received the signed agreement between the three Authorities which details the agreed upon apportionment model in place.</p> <p>An additional disclosure was required within the Related Parties note to reflect the agreement in place.</p> <p>We also tested the expenditure incurred from the joint control room.</p> <p>We have no matters to report from this work.</p>

<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>We:</p> <ul style="list-style-type: none"> · Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; · Reviewed accounting estimates for evidence of management bias; and · Evaluated the business rationale for any significant unusual transactions. 	<p>Our testing of journal entries did not identify adjustments which were outside of the normal course of business. All journals tested had an appropriate business rationale.</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 did not identify any evidence of management override or fraudulent activity.</p>
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Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must inform the Authority of significant findings from the audit and any other matters significant to oversight of the Authority's financial reporting process, including the following:

- qualitative aspects of accounting practices, estimates and disclosures;
- matters specifically required by other auditing standards to be reported to those charged with governance, e.g. issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- any significant difficulties encountered during the audit; and
- other audit matters of governance interest.

We have no matters to report.

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.

Request for written representations

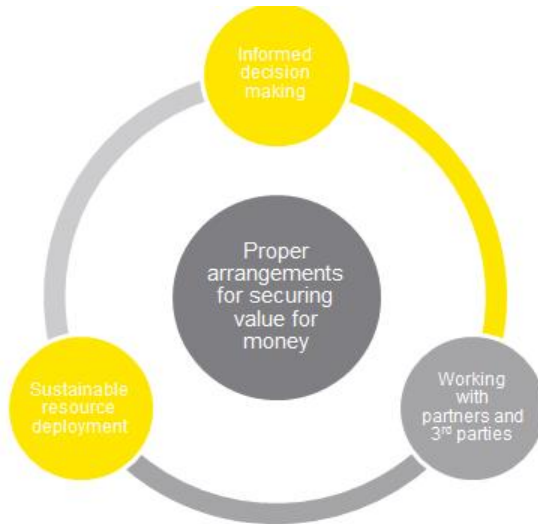
We have asked for a representation letter to gain management's confirmation on a number of matters, as outlined in the papers for the 28 September 2016 Audit and Governance Committee.

Whole of Government Accounts

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

We are currently concluding our work in this area and will report any matters that arise to the Audit and Governance Committee. The Authority is below the reporting thresholds for income, expenditure, assets and liabilities for Whole of Government Accounts purposes so our work on this is limited to reporting that fact to the NAO once the final Whole of Government Accounts return has been submitted.

4. Value for money



We must consider whether the Authority has ‘proper arrangements’ to secure economy, efficiency and effectiveness in 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 consist of the Authority’s arrangements to:

- ▶ take informed decisions;
- ▶ deploy resources in a sustainable manner; and
- ▶ work with partners and other third parties.

Overall conclusion

We identified one significant risk for these criteria:

- The Authority will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

We have performed the procedures as outlined in our audit plan. As a result of this work we did not identify any significant weaknesses in the Authority’s arrangements.

We therefore expect to conclude that the Authority has proper arrangements to secure value for money in its use of resources.

Significant risks

The table below presents the findings of our planned work

VFM risk identified in our audit plan	Has an impact on arrangements for:	Key findings
<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>The Authority continues to face financial challenges with a cumulative budget gap, on the current medium term financial plan, of £2.6 million in 2019/20.</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>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>	<ul style="list-style-type: none"> · taking informed decisions; · deploying resources in a sustainable manner; and · working with partners and other third parties. 	<p>We have used PSAA's value for money profile tool to assess Authority's spending against similar Fire Authorities.</p> <p>We have reviewed and assessed the assumptions within the Authority's 2016/17 budget and medium term financial plan.</p> <p>We have no matters to report from this work.</p>

Appendix A – Corrected audit differences

We identified the following disclosure corrections required, some of which contain corrected differences greater than £0.032 million, which we believe we should report to the Committee. None of these have an impact on the Authority's financial position.

These items have been corrected by management in the revised financial statements.

Disclosures

Disclosure	Description of difference
Note 8.27 – Pensions Costs	There are a number of figures from the IAS 19 report that haven't been included within the disclosure notes for pensions. The result of these amendments did not have an impact on the CIES or Balance Sheet.
Note 8.30 – Related Parties	Additional disclosure added to the Related Parties note to clearly set out the arrangements in place for the joint control room and the financial impact to the authority.
Note 8.33 – Events after the Balance Sheet Date	A non-adjusting post balance sheet event has been added to this note for the result of the referendum on UK leaving the EU and the consideration of possible impacts this might have to the Authority.
Note 9 – Firefighters' Pension Fund	The £1,139k Milne vs GAD payments to pensioners and subsequent reimbursement by Central Government had not been split out from other lines within the Pension Fund Account.

Appendix B – Outstanding matters

The following items are outstanding at the date of this report:

Item	Actions to resolve	Responsibility
Management representation letter	Receive signed letter of representation.	Management and Audit & Governance Committee.
Subsequent events review	Complete the subsequent events procedures up to the date the audit report is signed.	EY and management
Whole of Government Accounts	Preparation of submission by management, and review of the submission by EY.	EY and management

Appendix C – Independence

We confirm that there are no changes in our assessment of independence since our confirmation in the Audit Plan dated 23 March 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (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 confirm that we do not know of any relationships that may affect the independence and objectivity of the firm and which auditing and ethical standards require us to report to you.

We consider that our independence in this context is a matter that should be reviewed both by the Authority and by us. It is therefore important that you consider any facts you know about and come to a view. If you wish to discuss any matters concerning our independence, we will be happy to do so at the Audit and Governance Committee on 28 September 2016.

We confirm that we have met the reporting requirements to the Audit and Governance Committee as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan for doing this was set out in the Audit Plan of 23 March 2016.

Appendix D – Audit fees

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

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £	Variation comments
Total Audit Fee – Code work	34,000	34,000	-

Our actual fee is in line with the scale fee set by the PSAA, subject to satisfactory clearance of the outstanding work.

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

Appendix E – Required communication with the Audit and Governance Committee

We must provide certain communications to the Audit Committees of UK clients, as detailed below:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view on 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 and discussed with management ▶ Written representations requested from management ▶ Expected modifications to the audit report ▶ Any other matters significant to the oversight of the financial reporting process 	Audit Results Report
<p>Going concern</p> <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 in aggregate, that indicated there could be doubt about Royal Berkshire Fire Authority's ability to continue as a going concern for the 12 months from the date of our report.
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements relating to prior periods ▶ A request for any uncorrected misstatement to be corrected ▶ In writing, any significant corrected misstatements 	Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud we have identified or information obtained indicating that a fraud may exist ▶ A discussion of any other matters related to fraud 	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when 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 regulations ▶ difficulty in identifying the party that ultimately controls the entity 	We have not matters we wish to report.

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report
<p>Consideration of laws and regulations</p> <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 ▶ Ask the Audit and governance Committee about possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and which the Audit and Governance Committee may know about 	We have not identified any material instances of non-compliance with laws and regulations.
<p>Independence</p> <p>Communication of all significant facts and matters bearing on EY's objectivity and independence</p> <p>Communication of 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 about the general policies and processes to maintain objectivity and independence 	Audit Plan and Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<p>Audit Plan</p> <p>Audit Results Report</p> <p>Annual Audit Letter if considered necessary</p>

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