

# Royal Berkshire Fire Authority

Audit and Governance Committee Progress Report

March 2019



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March 2019

Dear Committee Members

## **Audit Progress Report**

We are pleased to attach our Audit Progress Report. Its purpose is to provide the Committee with an overview of the progress that we have made with the work for the 2018/19 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations. We will bring a progress report to each Committee except for those where we will bring the Audit Plan or the Audit Results Report.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Paul King  
Associate Partner  
For and behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated April 2018)” 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 Audit and Governance Committee and management of Royal Berkshire Fire Authority in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Governance Committee, and management of Royal Berkshire 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 Audit and Governance Committee and management of Royal Berkshire Fire Authority for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

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.

# 2018/19 audit

## Audit status

This is our progress report for the 2018/19 audit year. At the end of this report there is a summary of the key deliverables and progress against these. To date we have completed our planning of the audit and our interim work.

The interim work includes the documentation of your main systems, which are;

- Financial statements close process and journals,
- Accounts payable,
- Accounts receivable,
- Cash and bank,
- Payroll, and
- Plant, property and equipment (PPE).

We have then carried out a walkthrough of each system to ensure we have understood your processes and the controls that are in place. Some of this work cannot be completed until after the year end when your officers have carried out their year-end processes.

In addition, we have tested payroll, income and expenditure items up to month 9. We do this to try to reduce the amount of work required at our final accounts visit.

## Audit Plan

We presented our 2018/19 Audit Plan to the Audit and Governance Committee on 11 December 2018. We have kept the plan under review as the audit has progressed, and an update to the Plan is set out in the following sections.

## Meetings

We continue to have regular meetings with key officers as part of our ongoing audit process.

These have proved beneficial as we have developed our understanding of the financial processes that affect a number of areas of the financial statements. For example, how PPE is going to be valued each year and the steps being taken.

## Significant risks

Our Audit Plan set out the significant and other risks we identified as part of planning procedures that influenced our audit strategy. We have now completed our planning and our significant risks are:

- Misstatements due to fraud or error

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 prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.

Previously we had set out in the Audit Plan that we would carry out additional work on journals. After further consideration, looking at prior year results of our testing of journals and the processes and controls that you currently have in place regarding journals, we have concluded that we will carry out our standard audit procedures on journals in response to the requirements of the ISA.

Our review of risks has identified an additional significant risk;

- Inappropriate capitalisation of revenue expenditure

When an expenditure transaction is carried out, there is a further opportunity for it then to be capitalised. Apart from management review, there are no controls in place to prevent an item being incorrectly capitalised.

#### **What is the financial statement impact?**

We have assessed that the risk of fraud in revenue and expenditure recognition is most likely to occur through the inappropriate capitalisation of revenue expenditure. This would have the impact of reducing revenue expenditure and increasing additions of property, plant and equipment (PPE).

#### **What is the risk?**

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. 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 the manipulation of expenditure recognition.

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure.

#### **What will we do?**

We will:

- ▶ Test PPE additions to ensure that the expenditure incurred and capitalised is clearly capital in nature;
- ▶ Test revenue expenditure allowed to be funded by capital under statute (REFCUS), if material, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources; and
- ▶ Seek to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

Our work on the value for money conclusion is ongoing. In our Audit Plan, we stated the value for money conclusion review hadn't resulted in the identification of any significant risks. We will continue to update our risk assessment throughout the course of our audit.

The 'Other risks' from our Audit Plan remain the same, namely the valuation of land and buildings and the pension liability valuation.

## **Other areas of audit focus**

We have identified areas that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report. These were included in the audit plan:

- IFRS 9 Financial Instruments; and
- IFRS 15 Revenue from contracts with customers.

We have not identified any issues we wish to bring to your attention to date.

## **Audit and Governance Committee**

If, as members of the Audit and Governance Committee, you have any particular issues you wish to discuss with us, we would be pleased to do so.

## Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2018/19 Audit and Governance Committee cycle.

<b>Audit phase</b>	<b>Timetable</b>	<b>Audit and Governance Committee timetable</b>	<b>Deliverables</b>
Planning: Risk assessment and setting of scopes	<b>November 2018</b>	<b>December 2018</b>	Audit Planning Report
Walkthrough of key systems and processes early audit testing	<b>February 2019</b>	<b>March 2019</b>	Progress Report
Year-end audit Quality report/account testing	<b>April/May 2019</b>		
Completion of audit	<b>June 2019</b>	<b>July 2019</b>	Audit Results Report Audit opinions and completion certificate Annual Audit Letter

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