

Bedfordshire Fire and Rescue Authority

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP

Contents

Executive Summary	2
Purpose.....	5
Responsibilities.....	7
Financial Statement Audit	10
Value for Money	14
Other Reporting Issues.....	17
Focused on your future.....	21

Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. 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 (updated 23 February 2017)” 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 close-up photograph of a hand holding a blue pen and writing on a document. The hand is positioned on the right side of the frame. In the background, a calculator and a laptop are visible on a desk. A white mug is on the left side. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Executive Summary'.

Executive Summary

Executive Summary

We are required to issue an Annual Audit Letter to Bedfordshire Fire and Rescue Authority following completion of our audit procedures for the year ended 31 March 2017.

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 2017 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 presented to the 28 September 2017 Audit and Standards Committee
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 2017

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

Debbie Hanson
Associate Partner
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 2016/17 Audit Results Report to the Audit and Standards 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 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 17 February 2017 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 2016/17 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 you 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.

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 2017.

Our detailed findings were reported to the 28 September 2017 Audit and Standards Committee.

The key issues identified as part of our audit in our Audit Plan 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>	<ul style="list-style-type: none"> • We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements. • We reviewed the following accounting estimates for evidence of management bias: pension valuations, property valuations, provisions and creditor accruals. • We evaluated the business rationale for any significant unusual transactions. • We tested a sample of accruals and provisions to check whether they had been recorded at an appropriate value. • We undertook cut off testing for income and expenditure to ensure that material amounts had not been omitted from the financial statements that related to 2016/17. <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>

Our audit also highlighted a number of issues with the Authority's processes for the production of the accounts. We reported these in our Audit Results Report and summarise the key issues below.

Issues identified	Impact on the audit and recommendation
<p>Statement of accounts</p> <p>Whilst a draft statement of accounts was placed on the Authority's website in June it was evident that these were not compliant with the requirements of the Cipfa Code of Practice on Local Government Accounting (the Cipfa Code). Our audit also identified issues with the Authority's accounts which impacted on the timely completion of the audit and resulted in additional officer and audit time being required.</p>	<p>We delayed our audit from its original scheduled date in July to August to enable the Authority to produce a revised, Cipfa Code compliant, statement of account. We received these on 29th July and completed our audit of these revised statements by the end of September.</p> <p>A number of issues were identified during our audit which included:</p> <ul style="list-style-type: none">• Difficulties in accounting for the Authority's capital transactions, which was the main reason for the delay in producing a Cipfa Code compliant set of accounts.• Errors in the new Expenditure and Funding Analysis (EFA) note. This was included in the 2016/17 accounts for the first time as a result of changes to Cipfa Code following publication of their 'Telling the Story' report on the presentation of local government financial statements. Although the EFA was included in the draft statement of accounts, the note did not comply with the requirements to show income and expenditure using the same analysis as for internal decision making, nor did it show how this reconciled with the final general fund position. <p>In light of these issues, the Authority should review its processes for the production of the accounts for 2017/18 to ensure these issues are addressed and the Authority is able to produce a fully compliant set of accounts by the statutory deadline. This is particularly important in light of the compression of the timescale for the production and audit of the accounts in 2017/18, when the accounts will need to be produced by the 31 May and the audit opinion given by 31 July. The Treasurer reported to the Audit and Standards Committee meeting held on 28 September that he plans to bring in external support to assist with the preparation of the 2017/18 statement of accounts in order to address these issues.</p>

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £560k (2016: £525k), which is 2% of gross expenditure on services reported in the accounts. For the fire fighters’ pension fund we determined planning materiality to be £157k (2016:£143k). This is based on pensions payable including lump sums and commutations.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority.</p>
Reporting threshold	<p>We agreed with the Audit and Standards Committee that we would report to the Committee all audit differences in excess of £28,019 (2016: £26k) and differences over £7,887 (2016: £7k) for the firefighters’ pension fund.</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits. We applied a lower threshold for errors (£10,000) and any error that would affect the banding (where applicable to the note).
- Related party transactions: Accounting standard require us to consider the disclosure from the point of materiality to either side of the transaction we therefore considered this on a case by case basis.
- Members’ allowances: We would expect an error of over £10,000 to be considered material in the context of total spend of £67k.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

A close-up, shallow depth-of-field photograph of a stack of gold coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the embossed details on the coins. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

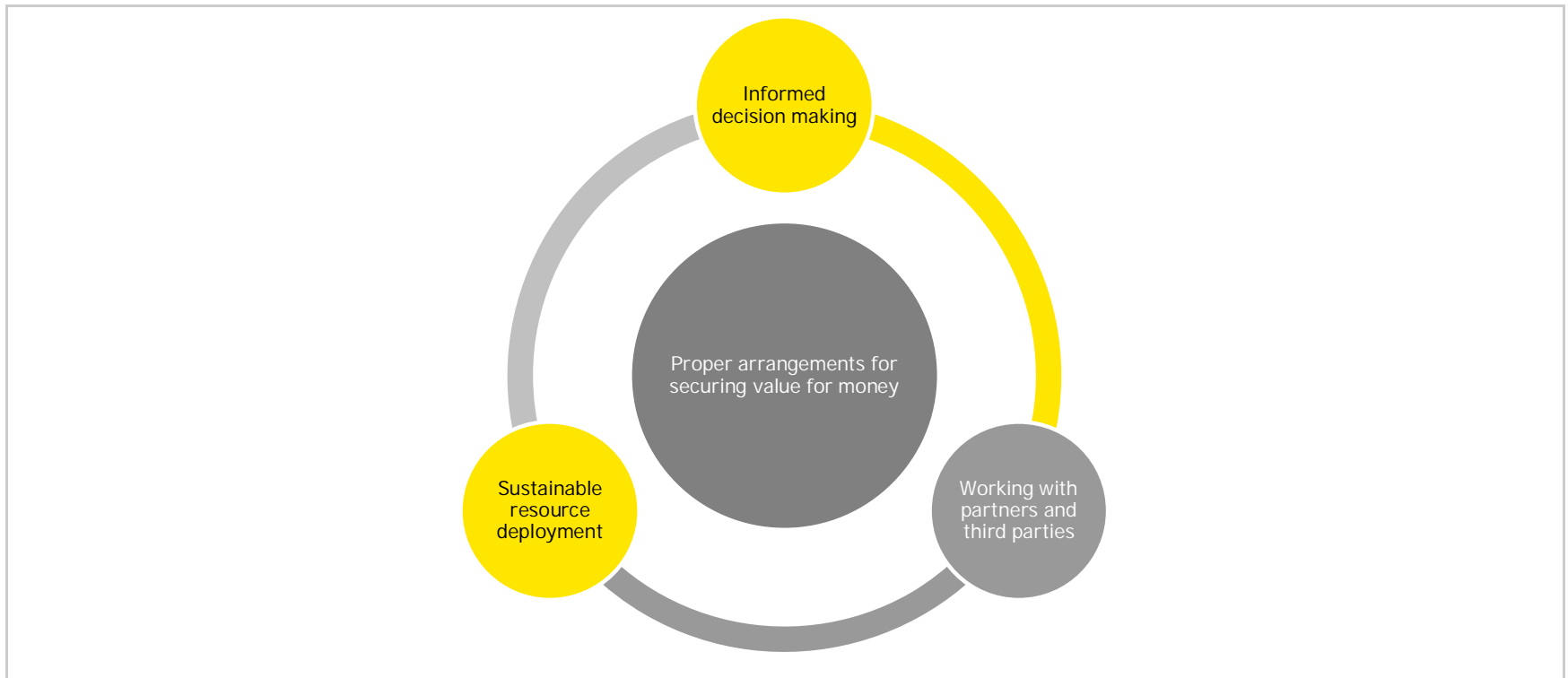
Value for Money

Value for Money

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

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

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



We did not identify any significant risks in relation to these criteria.

We have performed the procedures outlined in our Audit Plan. We did not identify any significant weaknesses in the Authority's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have set out below our observations which informed our conclusion.

We therefore issued an unqualified value for money conclusion on 29 September 2017.

Observations

Bedfordshire Fire and Rescue Authority has continued to respond well to the financial challenges that it, along with other public sector bodies, faces. The size of that challenge however remains significant.

The Authority continues to challenge ways of working to improve effectiveness and efficiency working collaboratively with other fire authorities and blue light services.

The Authority has a track record of controlling its budget and this has continued in 2016/17 with an underspend in year of £1.4 million, which is being used to set up an earmarked reserve to support further collaborative working.

The medium term financial strategy to 2020/21 projects only a small balance remaining on the transformational reserve which the Authority holds to help manage the changes required to its base budget over the medium term. The balance at 31 March 2017 on this reserve is £5 million.



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 2016/17 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 Audit and Standards Committee on 28 September 2017. 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

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit and Standards Committee.

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

Focused on your
future

Focused on your future

Area	Issue	Impact
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.	<p>As noted earlier in this letter, the Authority experienced difficulties in its capital accounting which affected its ability to produce the financial statements by the reporting deadline of 30 June this year.</p> <p>The change to the deadlines for 2017/18 provides challenges for both the preparers and the auditors of the financial statements.</p> <p>The Authority clearly needs to consider how it ensures that the key requirements of capital accounting and any changes to financial reporting requirements for the sector generally are addressed in future years. Given the pressure to complete audits within a more compressed timescale the preparation of clear working papers and prompt responses to queries will be vital. There will need to be a 'step change' in the quality of working papers produced to support the accounts, with the provision of a full set of papers with suitable supporting evidence on the first day of the audit.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> • Issued a thought piece on early closedown • As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales • Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017 <p>Locally we have:</p> <ul style="list-style-type: none"> • Set up a forum for chief accountants to meet with us to share ideas on how procedures can be streamlined. This will meet for the first time in October 2017. <p>We will continue to develop our productive working relation with the Authority during 2017/18 to jointly meet these new challenges.</p>
<i>Policing and Crime Act 2017</i>	The provisions in the Policing and Crime Act 2017 aim to support further emergency services collaboration between police bodies and ambulance and fire and rescue services. This presents a real	<p>The Authority will need to respond to the provisions in the legislation and the clear intention from Government for increased collaboration between emergency services.</p> <p>The Authority has already started to work more collaboratively with other</p>

Area	Issue	Impact
	opportunity to increase their efficiency and effectiveness, which will benefit the public as whole. The Act also includes provisions to enable PCCs to take on responsibility for the governance of local fire and rescue services where a local case is made.	emergency services and we will consider any impact on the financial statements and our value for money conclusion as part of our 2017/18 audit.

Annual Audit Letter for the year ended 31 March 2017 – Bedfordshire Fire and Rescue Authority

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All Rights Reserved.

ED None

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com