

Meeting: Combined Fire Authority**Date: 9th December 2015****Subject: External Audit - Annual Audit Letter 2014/15****Report by: The Treasurer****Author: Adam Stretton (Area Manager – Finance)****For: Discussion****1. Purpose**

- 1.1 The purpose of this report is to present PricewaterhouseCoopers' (PwC's) Annual Audit Letter 2014/15 along with an addendum on outstanding matters from their main report presented to the Combined Fire Authority (CFA) in September 2015.

2. Recommendations

CFA is asked to note the External Audit Annual Audit Letter and Addendum.

3. Executive Summary

- 3.1. It is the responsibility of the CFA to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. PwC's responsibility as the auditor is to consider whether the CFA has put adequate arrangements in place to satisfy itself that its systems of internal financial control are both adequate and effective in practice. The Annual Audit Letter (**Appendix 1**) summarises the detailed findings in the Audit Opinion for the 2014/15 Financial Statements and the report to those charged with governance (ISA 260). The Letter issued by PwC identifies that there is only one control weakness to report. In addition an addendum (**Appendix 2**) to the External Audit report submitted to the CFA meeting of the 24th September 2015 is attached and provides an update on the outstanding matters. All work is now completed.

4. Report Detail

- 4.1. The Annual Audit Letter at **Appendix 1** summarises the audit findings of the 2014/15 audit. The Letter provides commentary on the Accounts, Whole of Government Accounts, Economy, Efficiency and Effectiveness (Use of Resources) and the Annual Governance Statement. The Letter states that a full unqualified audit opinion was issued with regard to the Statement of Accounts, an unqualified value for money conclusion was issued and that there were no issues to report in respect of the Annual Governance Statement. One control weakness was identified. A recommendation to assign asset numbers to

individual assets held in the fixed asset register and purchased as part of the Birstall Headquarters and Station development (particularly ICT equipment) was agreed by management. PwC's work has been carried out in line with the External Audit Plan presented to the Overview and Scrutiny Committee on the 28th January 2015.

- 4.2. **Appendix 2** provides an addendum to the External Auditors report to the CFA on the 24th September 2015. This gives a formal update on matters that were outstanding in that report. All matters are now concluded.

5. Report Implications / Impact

5.1. *Legal (including crime and disorder)*

- a) None.

5.2. *Financial (including value for money, benefits and efficiencies)*

- a) The annual budget for 2015/16 contains a provision of £48,340 for the costs incurred for external audit. KPMG as our new External Auditors from 2015/16 are currently anticipating charging a total audit fee of £29,247. The actual fee charged and associated costs will be taken into consideration in financial monitoring during 2015/16.

5.3. *Risk (including corporate and operational, health and safety and any impact on the continuity of service delivery)*

- a) External Audit provides reassurance to the general public that the CFA is meeting its statutory obligations. They also work with Internal Audit and the Treasurer in ensuring that effective internal control procedures are in place.

5.4. *Staff, Service Users and Stakeholders (including the Equality Impact Assessment)*

- a) None.

5.5. *Environmental*

- a) None.

5.6. *Impact upon Our Plan Objectives*

- a) The CFA's Strategic Objective 4 is the attainment of efficiency and the provision of a value for money service. The provision of external audit assists both effective and efficient management and good corporate governance. It also externally validates the CFA's progress in this area.

6. Background Papers

- a) External Audit Plan 2014/15 – Overview and Scrutiny Committee 28th January 2015.

7. Appendices

1. External Audit Annual Audit Letter 2014/15
2. External Audit Addendum on outstanding matters

Leicester, Leicestershire and Rutland Combined Fire Authority

Annual Audit Letter

2014/15

Government and
Public Sector

October 2015

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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement.

Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

An audit is not designed to identify all matters that may be relevant to those charged with governance. Our audit does not ordinarily identify all such matters.

Introduction

The purpose of this letter

This letter summarises the results of our 2014/15 audit work for members of the Combined Fire Authority.

We have already reported the detailed findings from our audit work to the Combined Fire Authority in the following reports:

- Audit opinion for the 2014/15 financial statements, incorporating conclusion on the proper arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- Report to those charged with Governance (ISA (UK&I) 260).

The matters reported here are the most significant for the Authority.

Scope of Work

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Our 2014/15 audit work has been undertaken in accordance with the Audit Plan that we issued in January 2015 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

We met our responsibilities as follows:

Audit Responsibility	Results
<i>Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).</i>	We issued a full unqualified audit opinion on 29 September 2015.
<i>Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.</i>	The Authority was under the relevant threshold for a full audit of the consolidation pack. We submitted a report to the National Audit Office confirming this on 30 September 2015.
<i>Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.</i>	On 29 September 2015 we issued an unqualified value for money conclusion.

Audit Responsibility	Results	Audit Responsibility	Results
<p>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 complies with CIPFA / SOLACE guidance.</p>	<p>There were no issues to report in this regard.</p>	<p>Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.</p>	<p>We issued this certificate with the audit opinion.</p>
<p>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</p>	<p>There were no issues to report in this regard.</p>		
<p>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</p>	<p>There were no issues to report in this regard.</p>		

Included within this section are details of our findings within the following areas:

- *Accounts;*
- *Use of Resources;*
- *Annual Governance Statement; and*
- *Whole of Government Accounts*

Audit Findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 29 September 2015.

Our Report to Those Charged with Governance (ISA (UK&I) 260) was presented to the Audit Committee on 24 September 2015. We wish to draw the following points, included in that report, to your attention in this letter:

- The Authority prepared its accounts on a timely basis and there were minimal presentational or consistency issues identified in our review.
- We did not identify any significant issues with respect to the effectiveness of the Authority's internal controls.
- We reviewed the reasonableness of the assumptions underlying the pension liability of the Authority's Firefighters' Pension Scheme and Local Government Pension Scheme and concluded that we were comfortable with the assumptions adopted.
- We sought the views of our own property valuation experts on the methodology and assumptions adopted by the Authority's independent valuer for property, plant and equipment. We discussed points of issue with the valuer, and satisfied ourselves that assumptions were reasonable and unbiased.

- We reviewed the accounting treatment of the pension liability resulting from the Pension Ombudsman's May 2015 decision on commutation factors, and were satisfied that this was appropriately disclosed in the accounts based on the information available to the Authority.

Use of Resources

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether you had in place, for 2014/15, proper arrangements to secure economy, efficiency and effectiveness in your use of the Authority's resources.

In line with Audit Commission requirements, our conclusion was based on two criteria:

- that the organisation has proper arrangements in place for securing financial resilience; and
- that the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

To reach our conclusion, we carried out a programme of work that was based on our risk assessment.

We issued an unqualified conclusion on the ability of the organisation to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We reviewed the assumptions behind the Authority's Medium Term Financial Plan and savings plans and concluded that the Authority has made good progress on refining estimates used in modelling, and on identifying and implementing efficiency savings. The Authority now needs to prioritise:

- further refining its future financial models to model worst case scenarios; and
- identifying further permanent efficiency savings needed from 2017/18 onwards.

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the National Audit Office. The Authority was below the threshold prescribed for audit purposes and we submitted a report to the National Audit Office confirming this on 30 September 2015. We found no areas of concern to report in this context.

Other matters reported to those charged with governance

The following control weakness was reported in our ISA 260 report to the Combined Fire Authority:

Recommendation	Management Response	Target Implementation Date
Asset numbers should be assigned to individual assets held in the fixed asset register, particularly ICT equipment, so they may be used in asset verification checks to mitigate the risk of fraud through misappropriation of assets.	▶ The Area Manager Finance will hold discussions and review current practice with the relevant teams. Outcomes of this review will be put in place by December 2015.	December 2015

Our final fees were in line with our proposed fees for audit work and other services provided

Final Fees

Final Fees for 2014/15

We reported our fee proposals in our audit plan.

Our actual fees were in line with our proposals at £38,996.

Our fees charged were therefore:

	2014/15 outturn	2014/15 fee proposal	2013/14 final outturn
Audit work performed under the Code of Audit Practice: Statement of Accounts (including Value for Money conclusion and Whole of Government Accounts)	38,996	38,996	38,996
Non Audit Work	16,100	16,100	16,800
TOTAL	55,096	55,096	55,796

Non Audit Work

We delivered a VAT helpline and seminar, pensions and employment tax advisory services, and a review of the Organisation Change Programme model. These fell outside of the Code of Audit Practice requirements, and our proposed and actual fees for this non-audit work were £16,100.

Our 'Report to Those Charged with Governance (ISA (UK&I) 260)' provided information on our assessment of the threats to our independence presented by the non-audit services we provided to the Authority and described the safeguards we put in place to preserve our independence for each type of service.



In the event that, pursuant to a request which the Authority has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The Authority agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the Authority shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the Authority discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for the Authority and solely for the purpose and on the terms agreed through our contract with Public Sector Audit Appointments Limited. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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Leicester, Leicestershire and Rutland Combined Fire Authority

Addendum to Report to those
charged with governance

October 2015



Members of the Combined Fire Authority
Leicester, Leicestershire and Rutland Combined Fire Authority
12 Geoff Monk Way
Birstall
Leicester
LE4 3BU

1 October 2015

Ladies and Gentlemen

We are pleased to provide you with our addendum to our main report which we reported to you on the 24 September 2015. The main purpose of the report is to formally update you on matters which were outstanding in the report we presented to the Combined Fire Authority on the accounts of Leicester, Leicestershire and Rutland Combined Fire Authority ("the Authority") for the period ended 31 March 2015.

Yours faithfully



Alison Breadon
PricewaterhouseCoopers LLP

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

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Update on outstanding matters

This addendum provides an update to our report on the financial statements that we presented to the Combined Fire Authority on 24 September 2015.

The following areas were reported to the Combined Fire Authority on 24 September 2015 prior to approval of the financial statements.

Description	Update
<ul style="list-style-type: none"> • Formal confirmation of the outcome of the work performed on pensions scheme assets from the auditors of the Local Government Pension Fund; 	<ul style="list-style-type: none"> ✓ This was received before 24 September 2015 and no issues were noted.
<ul style="list-style-type: none"> • Completion of our work on verification of payroll reports used in the audit; 	<ul style="list-style-type: none"> ✓ This was completed before 24 September 2015 and no issues were noted.
<ul style="list-style-type: none"> • Agreement of accounting treatment of liabilities relating to the Pensions Ombudsman’s determination on commutation factors and the 2015 Fire Pension Scheme; 	<ul style="list-style-type: none"> ✓ Management included a contingent liability for these liabilities in the financial statements because they were unable to produce a reliable estimate of them. We were able to accept this treatment and issued an unqualified audit opinion on 29 September 2015.
<ul style="list-style-type: none"> • Review of the final version of the Statement of Accounts; 	<ul style="list-style-type: none"> ✓ Following adjustment of disclosures for the contingent liability discussed above we completed our final review of the financial statements on 28 September 2015.
<ul style="list-style-type: none"> • Approval of the Statement of Accounts and letters of representation 	<ul style="list-style-type: none"> Financial statements were approved by the Combined Fire Authority meeting on 24 September 2015, subject to the minor changes discussed above. All signed statements and the signed management representation letter were received on 29 September 2015.
<ul style="list-style-type: none"> • Completion procedures including subsequent events review; 	<ul style="list-style-type: none"> ✓ All procedures were completed by 29 September 2015.
<ul style="list-style-type: none"> • Submission of results of our work on Whole of Government Accounts 	<ul style="list-style-type: none"> ✓ We were not required to perform whole of government accounts procedures as the Combined Fire Authority falls below the National Audit Office (NAO), audit threshold of £350 million. We confirmed the Combined Fire Authority falls below this threshold to the NAO on 30 September 2015.



In the event that, pursuant to a request which the Leicester, Leicestershire and Rutland Combined Fire Authority has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The Leicester, Leicestershire and Rutland Combined Fire Authority agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the Leicester, Leicestershire and Rutland Combined Fire Authority shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the Leicester, Leicestershire and Rutland Combined Fire Authority discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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