

Hampshire Fire and Rescue Authority

Standards and Governance Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

25 September 2014



Building a better
working world

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Executive summary

Key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Standards and Governance Committee - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2013/14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ As of 25 September 2014, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Authority has prepared its financial statements well and in compliance with the Code.

Value for money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

Extent 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. In the Annual Governance Statement, the Authority reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes 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.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2013/14 financial statements.
- Report on any exception on the governance statement or other information included in the foreword.
- Consider and report any matters that prevent us being satisfied that the Authority had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion).

In addition, this report contains our findings related to the areas of audit emphasis, our views on the Authority's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also follow the group instructions issued by the National Audit Office, and send them our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

This report is intended solely for the information and use of the Authority. It is not intended to be and should not be used by anyone other than the specified party.

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

| Audit risk identified within our Audit Plan | Audit procedures performed | Assurance gained and issues arising |
|---|--|---|
| Significant audit risks (including fraud risks) | | |
| <p>As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> | <p>Our approach focused on:</p> <ul style="list-style-type: none"> • testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • reviewing accounting estimates for evidence of management bias; and • evaluating the business rationale for significant unusual transactions. | <p>Our substantive testing has found no evidence of management bias or override (subject to completion of our work in this area).</p> <p>We reviewed material adjusting journals which did not highlight any issues we need to report to those charged with governance.</p> |
| Other audit risks | | |
| <p>A revised IAS19 standard was published in June 2011 effective for the 2013/14 financial statements. The amendments simplify disclosures relating to defined benefit pension schemes and introduce changes to the calculation of interest received and chargeable to the pension fund. These changes are likely to have a material impact on the financial statements and will also require restatement of the prior year comparatives.</p> | <p>Our approach will focus on:</p> <ul style="list-style-type: none"> • Review of the presentation and disclosures for IAS19 to confirm the correct application of the amendments, • Testing the calculation of interest charges using approved discount rates, • Testing the restatement of prior year comparative entries for IAS19. | <p>We have substantively tested the disclosures relating to defined benefit pension schemes in the 2013/14 financial statements and concluded that they are materially correct.</p> <p>There are no issues that we need to bring to your attention.</p> |

Financial statements audit

Issues and misstatements arising from the audit

Progress of our audit

The audit is substantially complete, although there are a small number of audit procedures that we have still to complete. We will provide an update of progress at the Standards & Governance Committee meeting. These procedures include:

- Receipt of a Letter of Representation; and
- Reporting to the NAO as a component auditor.

Subject to the satisfactory resolution of the remaining audit procedures, we propose to issue an unqualified audit report on the financial statements.

Uncorrected Misstatements

We have identified no misstatements within the draft financial statements which management has chosen not to adjust.

Corrected Misstatements

Our audit identified a number of misstatements which our team have highlighted to management for amendment. All of these have been corrected during the course of our work.

We do not consider any of these to be significant and therefore we have not provided further details of these corrected misstatements.

Other Matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process.

We have no other matters we wish to report.

Financial statements audit (continued)

Internal Control, Written Representations & Whole of Government Accounts

Internal Control

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 tested the controls of the Authority only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that we are aware of from our audit of the financial statements.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters. We have not requested any disclosures in addition to the standard representations.

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 completing our work in this area and will report any matters that arise to the Standards and Governance Committee.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Hampshire Fire and Rescue Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Authority's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criterion 1 - Arrangements for securing financial resilience

- ▶ *“Whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”*

We did not identify any significant risks. We reviewed:

- ▶ the Authority's risk management procedures and risks registers;
- ▶ 2014/15 budget setting in response to the 2013 local government settlement; and
- ▶ the medium term financial plan.

We concluded that the Authority is aware of and is addressing its financial risks; it has planned a high level of reserves to fund future capital programmes; and has developed a sustainable budget and medium term plan.

We have no issues to report.

Criterion 2 - Arrangements for securing economy, efficiency and effectiveness

- ▶ *“Whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity”.*

We did not identify any significant risks. We reviewed:

- ▶ the Audit Commission's VFM profiles;
- ▶ the Authority's ability to deliver services in the medium term with reduced funding; and
- ▶ The Authority's response to the LGA peer review.

We concluded that where you were an outlier in the profiles this was because of conscious policy decisions and demographics; and that you are responding positively to the findings of the peer review. We have no issues to report.

Arrangements to secure economy, efficiency and effectiveness

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We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

| Audit risk identified within our Audit Plan | Audit procedures performed | Assurance gained and issues arising |
|---|---|--|
| Other risk | | |
| <p>There remains a risk that governance processes established to meet the requirements of "Proper arrangements" are not in operation for the whole period or are not correctly applied.</p> | <p>Our approach focused on:</p> <ul style="list-style-type: none"> • Updating our assessment of your governance processes against the VFM Criteria and "characteristics of proper arrangements" as specified by the Audit commission; • Review of minutes and papers of the Authority; • Review of comparative financial and operational performance data; • Testing for evidence of ongoing operation of key governance processes. | <p>We found that your overall arrangements to secure economy efficiency and effectiveness continue to operate effectively. We have no matters to report.</p> |

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 17 March 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. 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 are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.

If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Standards and Governance Committee on 25 September 2014.

- ▶ We confirm that we have met the reporting requirements to the Standards and Governance Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements was set out in our Audit Plan dated 17 March 2014.

Audit fees

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

| | Proposed final fee 2013-14 | Scale fee 2013-14 | Variation comments |
|-----------------------------|----------------------------|-------------------|--------------------|
| | £s | £s | |
| Total audit fee - Code work | 48,300 | 48,300 | - |
| Non-audit work | 0 | 0 | - |

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Ernst & Young LLP

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (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. 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.

