

# Hampshire Fire and Rescue Authority

## Standards and Governance Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

September 2015



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**Section 1**

# **Executive summary**

# 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 2014/15 audit which is substantially complete. It includes the messages arising from our audit of the Authority's financial statements and the results of our work to assess its arrangements to secure value for money in its use of resources.

### **Financial statements**

- ▶ At 22 September 2015, subject to satisfactory completion of the final matters, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate that the Authority has prepared its financial statements adequately, as we only have a few matters to communicate.

### **Value for money**

- ▶ We expect to conclude that the Authority has made appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Whole of Government Accounts**

- ▶ We do not expect to report any significant matters to the National Audit Office (NAO) on the Whole of Government Accounts submission.

### **Audit certificate**

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

**Section 2**

# **Extent and purpose of our work**

# 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 (AGS). In the AGS, 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 any planned changes in the coming period.
- ▶ 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 2014/15 financial statements and the consistency of other information published with them;
  - ▶ report on an exception basis on the Annual Governance Statement;
  - ▶ 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 the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

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

As the Authority is considered a component of the Whole of Government Accounts (for the whole public sector) and we are the component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to both the NAO and to the Authority.

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.

Section 3

# Addressing audit risks

# Addressing audit risks – significant audit risks

We identified the following audit risk during the planning phase of our audit, and reported this in our Audit Plan. We set out here how we have gained audit assurance over this issue.

In the context of auditing the financial statements, we define a significant audit risk as an inherent risk which is both more likely to happen and has a more serious effect if it does happen, and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's relevant controls and assess their design and implementation.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
<p data-bbox="125 655 629 687">Significant audit risk (including fraud risks)</p> <p data-bbox="125 743 510 775"><b>Risk of Management Override</b></p> <p data-bbox="125 783 853 943">As identified in ISA (UK &amp; 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 data-bbox="887 743 1189 775">Our approach focused on:</p> <ul data-bbox="887 783 1648 1015" style="list-style-type: none"><li data-bbox="887 783 1648 871">• Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li><li data-bbox="887 879 1648 951">• Reviewing accounting estimates for evidence of management bias; and</li><li data-bbox="887 959 1648 1015">• Evaluating the business rationale for any significant unusual transactions.</li></ul>	<p data-bbox="1693 743 2107 871">Our testing gave us no concerns as to management override through inappropriate or biased management decisions.</p>

# Addressing audit risks – other audit risks

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

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Other audit risks		
<p><b>1. Fire Fighter’s Pension Fund – Injury Benefits</b></p> <p>During the 2013/14 audit a material adjustment was made in relation to injury benefits. There is a risk that the amount owed to DCLG is not accounted for correctly within the financial statements</p>	<p>Our Approach focused on:</p> <ul style="list-style-type: none"> <li>• Auditing the work completed by the Authority in identifying the eight individuals; and</li> <li>• Ensuring appropriate guidance is followed by the Authority in how the amount owed to DCLG is accounted for in the financial statements.</li> </ul>	<p>Our inquiries and substantive testing gave us no concerns as to the calculation of injury benefits in 2014/15.</p>
<p><b>2. H3 contract arrangements</b></p> <p>A strategic partnership (H3) has replaced SLA agreements between Hampshire Fire and Rescue Authority, Hampshire County Council, The Chief Constable of Hampshire Constabulary and the Police and Crime Commissioner for Hampshire during the 2014/15 financial year. The change in arrangements includes changes in the basis of charging to all organisations, which could have a financial impact. Monitoring arrangements have also changed from the SLA agreements and the transition of operations needs to be reviewed.</p>	<p>Our Approach focused on:</p> <ul style="list-style-type: none"> <li>• Reviewing the overall arrangements for the project and the implications for these on financial charging and reporting;</li> <li>• Evaluating the monitoring arrangements in place over the H3 contract; and</li> <li>• Evaluating the governance and monitoring arrangements in place over the H3 partnership.</li> </ul>	<p>Our review including the evaluation of legal basis for the H3 contract has not identified any issues which we need to raise with you.</p>

Section 4

# Financial statements audit – issues and findings

# Financial statements audit – issues and misstatements arising from the audit

## Progress of our audit

- ▶ We need to complete the following areas of our work programme. We will provide an update of progress at the Overview and Audit Committee meeting:
  - ▶ Resolution of accounting for GAD vs Milne\*;
  - ▶ Receipt of a signed Letter of Representation which will be agreed at the meeting; and
  - ▶ Whole of Government Accounts (WGA) review.
- ▶ Subject to these being resolved satisfactorily, we propose to issue an unqualified audit report on the financial statements.

\* GAD vs Milne is a national issue which is affecting all Fire and Police Authorities. This will not impact on the bottom line of the accounts and we are working with management to determine the final accounting treatment. We expect to have agreed this in time to issue our audit opinion by the statutory deadline.

## Uncorrected misstatements

- ▶ We have not identified any misstatements in the draft financial statements which management has chosen not to adjust.

## Corrected misstatements

- ▶ Our audit also identified a number of misstatements which our team has highlighted to management for amendment. These have been corrected during the audit and Appendix A shows the details.

## Other matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must communicate to the Committee significant findings from the audit and other matters significant to the oversight of the Authority's financial reporting process. These include the following:
  - ▶ qualitative aspects of accounting practices; estimates and disclosures;
  - ▶ matters specifically required by other auditing standards to be communicated to those charged with governance, e.g. issues around fraud, compliance with laws and regulations, external confirmations, and related party transactions;
  - ▶ any significant difficulties during the audit; and
  - ▶ any other audit matters of governance interest.

We have no matters we wish to report.

# Financial statements audit – application of materiality

## Our application of materiality

When establishing our overall audit strategy, we set the level of uncorrected misstatements we considered to be material for the financial statements as a whole.

Item	
<p>Planning Materiality and Tolerable error</p>	<p>For the Authority’s financial statements, we set planning materiality at £1.82 million (2014: £1.46 million), which is 2% of gross expenditure in the accounts of £65.045 million.</p> <p>For the Firefighter’s pension fund, we set planning materiality at £0.166 million (2014: £0.156 million), which is 1% of benefits payable in the accounts of £16.651 million.</p> <p>We also set a tolerable error (TE) for the audit. This is how we apply planning materiality at the more detailed level of an individual account or balance. Its purpose is to make reasonably sure that the total of all uncorrected and undetected misstatements is unlikely to exceed planning materiality. The level of TE drives how much detailed audit testing we need to support our opinion.</p> <p>For the Authority’s financial statements we have set TE at the higher level available as there have been previously low level of corrections to the main accounts. The Firefighter’s pension fund we have set TE at the lower level of the available range because of the adjustments required in 2013/14 for injury benefits.</p>
<p>Reporting Threshold</p>	<p>We agreed with the Standards and Governance Committee that we would report to them all audit differences in excess of £0.091 million (2014: £0.099 million) for the Authority’s financial statements and for the pension fund £0.008 million (2014: £0.007 million)</p>

We also identified areas where we used a lower level of materiality level, as it might influence the reader. For these areas we developed a specific audit strategy. These include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: Strategy applied: Tested all disclosures to payroll information and supporting documentation
- Related party transactions. Strategy applied: Tested all disclosures and the register of members interests

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above; we also take into account any other relevant qualitative considerations.

# Financial statements audit – internal control, written representations and whole of government accounts

## Internal control

- ▶ It is the Authority's responsibility to develop and implement systems of internal financial control and to have proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as the Authority's auditor is to consider whether the Authority has adequate arrangements to satisfy itself that this is indeed the case.
- ▶ We have tested the controls of the Authority only to the extent needed 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 we know from our audit of the financial statements.

We have not identified any significant deficiencies in the design or operation of an internal control, and which the Authority does not know about, that might result in a material misstatement in the financial statements.

## Request for written representations

We have requested a management representation letter to gain management's confirmation on a number of matters.

We have not requested any specific representations for this year in addition to the standard representations required.

## Whole of Government Accounts (WGA)

- ▶ As well as our work on the financial statements, we also review and report to the National Audit Office on the Authority's 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 arising to the Overview and Audit Committee.

**Section 5**

# **Arrangements to secure economy, efficiency and effectiveness**

# 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 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 consider 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 under this criterion.

We concluded that the Authority is aware of its financial risks and is addressing them; it has planned a high level of reserves to fund future capital programmes; and has developed a sustainable budget and medium term plan. We had no issues to report to those charged with governance.

## 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 under this criterion.
- ▶ We have no issues to report under this criterion.

We concluded that where the Authority was an outlier when compared to the Audit Commission's profiling tool, this was because of the Authority's policy decisions and demographics; and that the Authority is responding positively to the findings from the Local Government Association's peer review. We had no issues to report to those charged with governance.

**Section 6**

# **Independence and audit fees**

# Independence and audit fees

## Independence

- ▶ We confirm there are no changes in our assessment of independence since the confirmation in our Audit Plan dated 30 March 2015.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. In our professional judgement the firm is independent, and the objectivity of the audit engagement partner and 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 and that we are required by auditing and ethical standards to report to the Authority.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both the Authority and us. It is therefore important to consider the facts of which the Authority is aware and come to a view. If the Committee wish to discuss any matters concerning our independence, we will be pleased to do so at the meeting on 22 September 2015.

## Reporting to Those Charged With Governance (TCWG)

- ▶ 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 and Ireland) 260 – Communication with those charged with governance. Our plan to meet these requirements were set out in our Audit Plan of 30 March 2015.

## Audit fees

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

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation comments
	£	£	
Audit Fee: Code work	48,300	48,300	N/a
Non-audit work	0	0	N/a

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

**Section 7**

# **Appendices**

# Appendix A – Financial Statements - corrected audit misstatements

- ▶ The following corrected disclosure misstatements greater than £0.090 million for the financial statements have been identified during the course of our audit and we judge that we should inform the Committee. Corrections have not impacted upon main financial statements
- ▶ Management has corrected these items in the revised financial statements.
  
- ▶ PY adjustments related to the following notes:
  - ▶ 14.22 Cash and Cash Equivalents
  - ▶ 15.8 Credit Risk: Investment, Credit Risk Quality
  - ▶ 15.9 Liquidity Risk
  - ▶ 20.2 and 20.3 Amounts reported for resource allocation decisions
  - ▶ 20.3 Reconciliation of Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement
  - ▶ 23.1 External audit costs
  
- ▶ Casting errors:
  - ▶ Note 8 Capital grants and contributions over stated
  - ▶ Note 9: Total capital reserves under the Transfers in column incorrectly cast
  - ▶ Note 31.3 Interest received and interest paid disclosed in this note to the cashflow statement is inconsistent with interest received and interest paid disclosed in other parts of the stats
  
- ▶ Other disclosure errors:
  - ▶ Note 30.19 effect change in the assumptions for the NFPS benefits incorrectly disclosed

## Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

# Appendix B – Fire Fighters Pension Fund- corrected audit misstatements

- ▶ No misstatements greater than £0.008 million for the Fire Fighters pension fund have been identified during the course of our audit and we judge that we should inform the Committee.

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