



Annual Audit Letter

Year ending 31 March 2018

Avon Fire Authority
September 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Avon Fire Authority (the Authority) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Authority and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Authority's Audit, Governance and Ethics Committee as those charged with governance in our Audit Findings Report on 21 September 2018.

Our work

Materiality	We determined materiality for the audit of the Authority's financial statements to be £0.811 million, which is 1.8% of the Authority's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Authority's financial statements on 21 September 2018.
Whole of Government Accounts (WGA)	We completed work on the Authority's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were not satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources because of weaknesses in governance arrangements . We therefore issued an adverse value for money conclusion in our audit report to the Authority on 21 September 2018.
Certificate	We certify that we have completed the audit of the accounts of Avon Fire Authority in accordance with the requirements of the Code of Audit Practice.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Authority's financial statements (section two)
- assess the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Authority's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Authority's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the accounts to be £0.811 million, which is 1.8% of the Authority's gross revenue expenditure. We used this benchmark as, in our view, users of the financial statements are most interested in where the Authority has spent its revenue in the year.

We also set a lower level of specific materiality for senior officers remuneration.

We set a lower threshold of £0.041 million, above which we reported errors to the Audit, Ethics and Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check they are consistent with our understanding of the Authority and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue</p>	<p>Auditor commentary Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Avon Fire Authority, mean that all forms of fraud are seen as unacceptable. 	<p>Therefore we did not consider this to be a significant risk for Avon Fire Authority.</p>
<p>Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.</p>	<p>Auditor commentary We undertook the following work in relation to this risk</p> <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions • review of significant related party transactions outside the normal course of business. 	<p>In our review of journals we identified that the interim Treasurer has access to post journals. On review of journals posted in the year, we did not identify any journals posted by the interim Treasurer. It is best practice for senior members of the organisation not to have this access and therefore we have made a recommendation for this to be removed.</p>

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment The Authority revalued all of its land and buildings as at 31 December 2017 to ensure that the carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>Auditor commentary The following work was completed</p> <ul style="list-style-type: none"> • review of management's processes and assumptions for the calculation of the estimate • review of the competence, expertise and objectivity of any management experts used • review of the instructions issued to valuation experts and the scope of their work • discussions with the Authority's valuer about the basis on which the valuation was carried out, challenging the key assumptions • review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding • testing of revaluations made during the year to ensure they were input correctly into the Authority's asset register • evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>We did not identified any issues in regard to the Authority's valuation of land and buildings. Our work on the valuation of vehicles and equipment has identified issues and a number of amendments with the financial statements.</p>
<p>Valuation of pension fund net liability The Authority's LGPS pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>Auditor commentary The following work was completed</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement • reviewed of the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation • gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made • reviewed of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>We did not identified any issues in regard to the valuation of pension fund liability.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Authority's financial statements on 21 September 2018.

Preparation of the accounts

The Authority presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Authority's Audit, Governance and Ethics Committee on 27 July 2018 and our final report was discussed with Committee on 21 September 2018.

Annual Governance Statement and Narrative Report

We are required to review the Authority's Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Accounts in line with the national deadlines.

A number of the requirements per the CIPFA Code of Practice for inclusion within the narrative report were not covered within the draft report. The draft narrative report covered the financial aspects of the requirements but did not cover a number of non financial requirements such as providing information on main objectives and strategies and principal risks that it faces. The final report has been amended to include further detail. There were no issues to report regarding our review of the annual governance statement.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Authority's accounts and to raise objections received in relation to the accounts.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Avon Fire Authority in accordance with the requirements of the Code of Audit Practice.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Authority in September 2018, we agreed recommendations to address our findings.

Overall Value for Money conclusion

Because of the significance of the matters we identified in our work, we were not satisfied that the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability</p> <p>Since the Medium Term Financial plan (MTFP) was approved by Members in February 2017, there have been a number of key assumptions, particularly around pay awards and inflation which have resulted in unbudgeted spending pressures over the four year medium term financial plan of £1.8m which need to be addressed. There has also been significant slippage in the capital programme.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> - reviewed the Authority's performance against budget for 2017/18 - reviewed the robustness of the assumption in the latest MTFP - understood the arrangements in place to reduce capital slippage going forward - understood the future savings plans and achievement of savings in 2017/18 	<p>The Authority achieved a surplus outturn position of £0.49 million for 2017/18 which included achieving savings of £1.729m, the full target set for the financial year. The Authority tax rate was increased by 1.99%, the highest level before requiring a referendum. In 2018/19 the Authority approved an increase in Authority tax of 2.99% in line with the increase in the level before a referendum is required and has a revenue budget requirement of £42.54 million; a 1.34% reduction in budget from the prior year. After taking into account the increase in income from the raise in Authority tax, the Authority was required to identify savings of £1.67 million in order to achieve a balanced budget</p> <p>Overall we concluded that the arrangements in place for financial sustainability are adequate. We do, however, recognise that significant pressures remain within the system and continued close in year monitoring and timely corrective action will be required going forward to ensure budgets are delivered.</p>
<p>Governance, Leadership and Culture</p> <p>The Home Office inspection report identified fundamental failings in the governance and leadership at the Authority. The failings were pervasive to the whole Authority. Internal Audit were unable to provide an overall opinion in their 2016/17 annual report. A number of lessons learnt have been identified from the HQ relocation project.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> - reviewed the Authority's response and action plans to the Home Office report as well as reviewing progress made so far - reviewed the latest corporate risk register - held discussions with internal audit regarding the position of reviews in 2017/18 	<p>From our review of arrangements we have concluded the following:</p> <ul style="list-style-type: none"> • The Home Office report was published in July 2017 and therefore the issues came to light four months in the 2017/18 financial year and consequently any changes implemented by the Authority do not cover the whole of the 2017/18 year as the improvement programme was implemented after the publication of the report and have therefore not been fully embedded within the financial year. • The Authority are on an improvement journey and only part way through this journey (two year improvement plan). It is clear that the improvement plan and project team have implemented a number of changes in response to the recommendations in the report, however, there has been no further external review of the new arrangements, and it is too early to gauge the tangible benefits of the changes made. <p>Because of the significance of the matters we identified in respect of governance we are not satisfied that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.</p> <p>Overall we concluded that the arrangements in place for governance are inadequate.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and confirm there were no fees for the provision of non audit services.

Reports issued

Report	Date issued
Audit Plan	January 2018
Audit Findings Report	September 2018
Annual Audit Letter	September 2018

Fees for non-audit services

Service	Fees £
Audit related services	Nil
- None	
Non-Audit related services	Nil
- None	

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Audit	31,454	TBC	31,454
Total fees	31,454	TBC	31,454

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA) Fee variations are subject to approval by Public Sector Audit Appointments Ltd.

B. Recommendations

We have identified three recommendations for the Authority as a result of issues identified during the course of our audit. We will agree our recommendations with management. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
 Medium	<ul style="list-style-type: none"> Capital expenditure is monitored against total expected spend over the life of the capital project. There is therefore a risk that slippages within any financial year are not easily identified. 	<ul style="list-style-type: none"> The Authority should consider monitoring the capital programme against the annual profiled expected spend in order to track year on year slippage and provide more robust monitoring of the capital programme. <p>Management response</p> <ul style="list-style-type: none"> The existing capital monitoring report does identify the expected expenditure for the current financial year but this will be amended to make this more clear. The detailed analysis of slippage already provided in the monitoring report will be amended to clearly reflect the financial year in which this is likely to be spent.
 Medium	<ul style="list-style-type: none"> The interim Treasurer has access to post journals. It is best practice for senior officers not to have access to this function. 	<ul style="list-style-type: none"> The interim Treasurer's access to post journals should be removed. <p>Management response</p> <ul style="list-style-type: none"> Confirmation has been provided that the Interim Treasurer has not posted any journals. The procedures necessary to remove access to the journal function have commenced and this should be finalised in the very near future. In the intervening period the Interim Treasurer has confirmed that he will not to use the journal function.
 Medium	<ul style="list-style-type: none"> The Internal Audit Opinion is a source of assurance for the Authority and in 2017/18 Internal Audit has concluded that there are reasonable arrangements in place however no specific follow up work on the improvement programme arrangements was undertaken by Internal Audit. 	<ul style="list-style-type: none"> The Authority should ensure they work closely with their new Internal Auditors to determine how Internal Audit can provide independent assurance and challenge over the improvement programme arrangements including the progress and outcomes of the programme. <p>Management response</p> <ul style="list-style-type: none"> The Authority will continue to work closely with the newly appointed Internal Audit team. A number of meetings have been scheduled to take place throughout the year to ensure the effective exchange of information and scrutiny of audit findings.

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice



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