



# The Annual Audit Letter for Kent and Medway Fire and Rescue Authority

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Year ended 31 March 2019

2 September 2019



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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 Kent and Medway Fire and Rescue Authority (the Authority) for the year ended 31 March 2019.

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 as those charged with governance in our Audit Findings Report on 27 June 2019.

## Our work

## 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.

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<b>Materiality</b>	We determined materiality for the audit of the Authority's financial statements to be £1,652,000, which is 2% of the Authority's gross expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Authority's financial statements on 30 July 2019.
<b>Whole of Government Accounts (WGA)</b>	We completed the required work on the Authority's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.

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# Executive Summary

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<b>Value for Money arrangements</b>	We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We issued an unmodified value for money conclusion on 30 July 2019.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Code of Audit Practice on 30 July 2019.

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We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Authority's staff.

**Grant Thornton UK LLP**  
September 2019

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# Audit of the Financial Statements

## 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 Authority's financial statements to be £1,652,000, which is 2% of the Authority's gross expenditure. We used this benchmark as, in our view, users of the Authority's financial statements are most interested in where the Authority has spent its revenue in the year.

We set a lower threshold of £83,000, above which we reported errors to the Authority 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 financial statements and the narrative report, annual governance statement and Annual Report published alongside the financial statements to check it is consistent with our understanding of the Authority and with the financial statements included in the Annual Report 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 was 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 Financial Statements

## 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><b>Valuation of land and buildings</b></p> <p>The Authority revalues its land and buildings on a five-yearly basis. In the intervening years to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, the Authority requests a desktop valuation from its valuation expert to ensure that there is no material difference. A full physical property inspection is due to be completed for 2018/19.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (PY £69,385k) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We undertook the following audit work:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>wrote to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>tested revaluations made during the year to see if they had been input correctly into the Authority's asset register</li> </ul> <p>We performed additional audit work due to the second valuation undertaken by the Authority which required us to re-perform our review of the valuer as a management expert and the associated review of assumptions and information used by the valuer.</p>	<p>We were able to conclude that this risk did not crystallise.</p>
<p><b>Management override of internal controls</b></p> <p>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.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We undertook the following audit work:</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals</li> <li>analysed the journals listing and determined the criteria for selecting high risk unusual journals</li> <li>tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence</li> <li>evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions</li> </ul>	<p>We were able to conclude that this risk did not crystallise.</p>

# Audit of the Financial Statements

## 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><b>Valuation of net pension liability</b></p> <p>The Local Government Pension Scheme (LGPS) pension net liability as reflected in the balance sheet, and the asset and liability information disclosed in the notes to the accounts, represents significant estimates in the financial statements.</p> <p>The Firefighters' Pension Fund Account liability as reflected in the balance sheet represents a significant estimate in the financial statements.</p> <p>These estimates by their nature are subject to significant estimation uncertainty, being sensitive to small adjustments in the assumptions used.</p> <p>We identified valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We undertook the following audit work:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liabilities are not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> </ul> <p>We requested assurances from the auditor of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</p> <p><b>McCloud</b></p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for all pension schemes where they have implemented transitional arrangements on changing benefits. As this is a sector wide issue, we discussed this with the National Audit Office and other audit firms to understand the potential impact on this year's financial statements. Additional assurances are being sought on the legal likelihood of additional payments and the actuarial assessment of the estimated liability. Our audit work is complete and has not identified any material issues in relation to this risk following your decision to amend the pensions disclosures for the updated actuarial information requested from Barnett Waddingham.</p>	<p>We were able to conclude that this risk did not crystallise.</p>

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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Authority's financial statements on 30 July 2019.

## **Preparation of the financial statements**

The Authority presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the Authority on 27 June 2019.

## **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 or alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Authority and with our knowledge of the Authority.

## **Whole of Government Accounts (WGA)**

We carried out work on the Authority's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Authority was below the audit threshold.

## **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 certified that we have completed the audit of the financial statements of Kent and Medway Fire and Rescue Authority in accordance with the requirements of the Code of Audit Practice on 30 July 2019.

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# 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 risks where we concentrated our work.

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

As part of our Audit Findings report agreed with the Authority in June 2019, we agreed recommendations to address our findings.

## Overall Value for Money conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	Findings	Conclusions
<p><b>Financial sustainability</b></p> <p>The Authority continues to face significant financial pressures associated with reductions in government funding. The Authority has taken a number of measures over recent years to address these issues and has identified the need to make further savings to revenue budgets over the period of the Medium Term Financial Plan (MTFP).</p> <p>The continued strength of the financial planning framework is key to maintaining a sustainable financial position whilst delivering the Authority's key objectives over the medium term.</p>	<p>The Authority has a history of sound financial management. You have delivered an underspend of £1.5 million against the revenue budget for 2018/19.</p> <p>You continue to have a strong financial planning framework based on a 4 year medium term financial plan (MTFP) which is updated annually. Review of supporting trails for the current, 2019 to 2023 MTFP shows that this is based on a comprehensive consideration of the relevant income and expenditure streams and that the plan is supported by a detailed options analysis.</p> <p>Under the MTFP, you will need to make revenue savings of £2.301 million in 2019/20, with a need to make further savings of £6.1 million over the following three years.</p> <p>You have a significant medium term capital programme. However, you have a substantial earmarked reserve to support this and currently plan to fund your capital strategy without the use of additional external borrowing. Overall you continue to have an adequate level of reserves to address unforeseen risks and support future spending plans, with total usable reserves of £42.304 million at 31 March 2019.</p> <p>Reporting of financial planning information to members is comprehensive and transparent, with early scene-setting information provided ahead of the annual budget process, integrated reporting of the annual budget with the MTFP, and detailed analysis in the reporting of both the annual budget and future planning information.</p>	<p>We concluded that the risk we identified was sufficiently mitigated and that you have proper arrangements for securing economy, efficiency and effectiveness in the use of resources.</p>
<p><b>HMICFRS 2019 Inspection</b></p> <p>The inspection of the KMFRA took place in January 2019 but is due to produce the final report towards the end of June. The outcome of the inspection could have significant impact on the running of the KMFRA.</p>	<p>The inspection was completed in January 2019 and information was provided to the Authority for fact checking purpose in May 2019. At the time of undertaking our work, the inspection report was not yet available. Interviews with management did not indicate a significant risk to your value for money conclusion. The subsequent report rated the Authority as 'Good' in all three areas.</p>	<p>We concluded that, based on the information provided by management, the risk we identified was sufficiently mitigated</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	25 April 2019
Audit Findings Report	27 June 2019
Annual Audit Letter	2 September 2019

## Fees

	Planned fees £	Actual fees £	2017/18 fees £
Statutory audit	27,418	27,418	35,608
<b>Total fees</b>	<b>27,418</b>	<b>27,418</b>	<b>35,608</b>

### Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £27,418 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
<b>Assessing the impact of the McCloud ruling</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	1,600
<b>Pensions – IAS 19</b>	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,200
<b>PPE Valuation – work of experts</b>	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. In addition, the use of a second management expert led to further work being required. We have increased the volume and scope of our audit work to reflect this.	2,400
<b>Total</b>		5,200

Fee variations are subject to PSAA approval.



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