



LONDON FIRE BRIGADE

Decision title

External Auditor – Annual Audit Letter 2017–18

Recommendation by

Assistant Director, Finance

Decision Number

LFC-0087-D

Protective marking: **NOT PROTECTIVELY MARKED**

Publication status: Published in full

Summary

LFC-0087 presents the External Auditor's Annual Audit Letter 2017/18 in respect of the former London Fire and Emergency Planning Authority and summarises the findings to the London Fire Commissioner from the 2017/18 audit. The audit comprised of two elements: the audit of the financial statements; and the assessment of the Authority's arrangements to achieve value for money in the use of its resources.

Decision

The London Fire Commissioner receives the External Auditor's Annual Audit Letter and notes the findings within.

Dany Cotton QFSM
London Fire Commissioner

Date 21-11-18

Access to Information – Contact Officer

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LONDON FIRE BRIGADE

Report title

External Auditor's – Annual Audit Letter 2017-18

Report to

Commissioner's Board

Date

7 November 2018

Report by

Assistant Director, Finance

Report number

LFC-0087

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Summary

This report presents the External Auditor's Annual Audit Letter 2017/18 in respect of the former London Fire and Emergency Planning Authority and summarises the findings to the London Fire Commissioner from the 2017/18 audit. The audit comprised of two elements : the audit of the financial statements; and the assessment of the Authority's arrangements to achieve value for money in the use of its resources.

Recommended decision

That the London Fire Commissioner notes the findings in the External Auditor's Annual Audit Letter.

Background

1. The Authority's external auditor, Ernst & Young LLP, has prepared their Annual Audit Letter for the 2017/18 audit. A copy of the letter is attached at appendix A. The letter sets out the auditor's findings on the audit of the Authority's financial statements and an assessment of the Authority's arrangements to achieve value for money in the use of its resources.

Audit Opinion on the Financial Statements

2. An unqualified opinion has been given by Ernst & Young on the Authority's financial statements for the year ending 31 March 2018. There were no questions or objections received from local electors regarding the financial statements.

Value for Money conclusion

3. Ernst and Young LLP has carried out their assessment of the Authority's use of its resources and has reported that on the basis of their audit work, having regard to the guidance on the specified criteria published by the former Audit Commission, they 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 ended 31 March 2018.

Audit Certificate

- Following review of the external auditor's Annual Audit Report and approval of the Authority's audited accounts (LFC-0040) at the Commissioner's Board meeting on 18 July 2018, Ernst & Young issued their Audit certificate on 20 July 2018. This certified that they have completed their audit of the Authority's accounts and issued an assurance statement in respect of the Authority's Whole of Government Accounts submission, in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Audit Letter

- The Audit letter raises no issues or areas of concern with the Authority's accounts, Whole of Government accounts submission, Value for Money assessment and the Annual Governance statement. A copy of the letter is attached to this report and will then be published on the Authority's website as required by the Accounts and Audit Regulations 2015.
- The auditor has made two recommendations; 1) that all departments should be reminded of the requirement to include all contracts on the contracts register and that the process needs to be followed so that the contract register can be relied upon by the London Fire Commissioner as a complete record; 2) evidence of expenditure to be supported with appropriate evidence, as this was not the case in all instances.

Audit arrangements for future years

- The Public Sector Audit Appointments Ltd (PSAA) notified the Commissioner that, Ernst & Young LLP (EY) had been provisionally appointed to audit the accounts of the former London Fire and Emergency Planning Authority, now the London Fire Commissioner, for a five year period from 2018/19, with the appointment starting on 1 April 2018. There were no concerns raised by the Authority and the arrangement was confirmed. EY are also the appointed external auditors for the GLA.

Audit Fees

- A summary of the audit fees is set out below;

	Scale Fee 2016/17	Final Fee 2016/17	Scale Fee 2017/18	Final Fee 2017/18	Final Fee 2018/19
Fees	£67,482	£67,482	£67,482	£67,482	£51,961
Additional Fees subject to approval	0	£6,754	0	£6,262	0
Total Audit Fees	£67,482	£74,236	£67,482	£73,744	£51,961

- The additional fee for 2017/18 will be met from the finance budget.

Fees 2017/18

- The audit fees for 2017/18 were £67.5k, plus a scale fee variation of £6.3k resulting in a final fee figure for 2017/18 of £73.7k. The additional work was in response to risk level attributed to extended testing relating to accruals. The additional fees have yet to be agreed by the PSAA.

Fees 2018/19

11. The new contract with EY started on 1 April 2018. The reduction in fees shown in the table above for 2018/19 is as a result of the new contract fee.

Finance comments

12. This report is by the Assistant Director, Finance and there are no further comments.

Workforce comments

13. No staff-side consultations have been undertaken on this report.

General Counsel's Comments

14. The London Fire Commissioner is required to comply with the provisions of the Local Audit and Accountability Act 2014 ("2014 Act") and subsidiary legislation and guidance by virtue of Schedule 2 of the 2014 Act.

15. The 2014 Act requires that the LFEPA and LFC's accounts for a financial year must be audited both:

- a) in accordance with the 2014 Act and provision made under it, and
- b) by an auditor (a "local auditor") appointed in accordance with this Act or provision made under it.

16. Ernst and Young are the appointed auditor and this report and the attached letter confirms their and the LFEPA's compliance with the 2014 Act in the preceding financial year.

Sustainability implications


17. There are no sustainability implications arising from the report.

Equalities implications

18. There are no equality implications directly resulting from this report.

List of Appendices

Appendix	Title	Protective Marking
A	External Auditor's – Annual Audit Letter 2017/18	Not protectively marked



London Fire Commissioner
(formerly the London Fire and
Emergency Planning Authority)

Annual Audit Letter for the year
ended 31 March 2018

August 2018

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between 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 'Terms of Appointment (updated 23 February 2017)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter 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.



01

Executive Summary

Executive Summary

We are required to issue an Annual Audit Letter to the London Fire Commissioner concerning the London Fire and Emergency Planning Authority following completion of our audit procedures for the year ended 31 March 2018. As a result of the Policing and Crime Act 2017, on 1st April 2018 the London Fire and Emergency Planning Authority was abolished, and a new office known as the London Fire Commissioner (LFC) was created as a corporation sole. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the LFC's: ► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the LFC and Firefighters' Pension Fund as at 31 March 2018 and of its expenditure and income for the year then ended
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the LFC's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the LFC.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the LFC, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the LFC's Whole of Government Accounts return (WGA).	We had no matters to report. Although the LFC is above the specified audit threshold of £500 million, this is due to accounting charges relating to pensions liabilities. We were therefore only required by the NAO to report on the consistency of these entries with the audited financial statements. We performed no further audit procedures on the consolidation pack.



Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the LFC communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 4 July 2018 and discussed with the London Fire Commissioner on 10 July 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 20 July 2018.

We would like to take this opportunity to thank the LFC's staff for their assistance during the course of our work.

Debbie Hanson

Associate Partner

For and on behalf of Ernst & Young LLP



02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to the LFC and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the LFC.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report, which we presented to the London Fire Commissioner, as those charged with governance, on 10 July 2018. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the LFC.

Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 19 March 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2017/18 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the LFC has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the LFC;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the LFC, which should be copied to the Secretary of State;
 - ▶ We make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
 - ▶ We issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
 - ▶ We make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. Although the LFC is above the specified audit threshold of £500 million, this is due to accounting charges relating to pensions liabilities. We were therefore only required by the NAO to report the consistency of these entries with the audited financial statements. We performed no further audit procedures on the consolidation pack.

Responsibilities of the LFC

The LFC is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the Annual Governance Statement, the LFC reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The LFC is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



03

Financial Statement Audit

Financial Statement Audit

Key Issues

The LFC's Statement of Accounts is an important tool for the LFC to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the LFC's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 20 July 2018.

Our detailed findings were reported to the London Fire Commissioner on 10 July 2018.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Risk of fraud in revenue and expenditure recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>For the LFC, the only material revenue income stream which is not grant related, and which we have therefore assessed as at risk of manipulation, is income relating to the Metropolitan Fire Brigade (MFB) Act.</p> <p>The potential for the incorrect classification of revenue spend as capital is also a particular area where there is a risk of fraud in revenue recognition.</p>	<p>We focused on the areas where there was a higher risk of material misstatement in revenue or expenditure as a result of fraud or errors:</p> <ul style="list-style-type: none">• Whether expenditure should be classified as revenue or capital expenditure;• Which financial year expenditure should be recognised in, with particular focus on the year end accruals• Which financial year income should be recognised, with particular focus on Metropolitan Fire Brigade (MFB) Act income. <p>We confirmed that the only significant source of invoiced income in 2017/18 is Metropolitan Fire Brigade (MFB) Act income. In line with our expectations based on previous years, other invoiced income such as rental income is immaterial. We concluded that grant income could not easily be manipulated since it is subject to third party verification.</p> <p>We tested capital additions and confirmed that they were appropriately treated as capital rather than revenue.</p> <p>We tested income and expenditure received and incurred before and after year-end to ensure that it had been appropriately recognised. We identified errors in expenditure cut-off testing, resulting in an overstatement of creditors and expenditure in 2017/18. We assessed that this was not indicative of deliberate manipulation since it arose from a calculation error in assessing how much of the expenditure related to the prior year. We performed extended testing on other items of expenditure of this type (prepayments) and noted one further error. The errors were insignificant (£150). and the untested population of prepayments was also immaterial.</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p>Misstatement due to fraud or error</p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>We focused on aspects of the financial statements where management could inappropriately inflate income or understate expenditure, primarily:</p> <ul style="list-style-type: none">• Material accounting estimates.• Accruals near year end• Journal entries.• Unusual transactions. <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied in estimates.</p> <p>We identified one transaction during our audit which appeared unusual and outside the LFC's normal course of business. A business rates refund of £2 million was accrued for in 2017/18. We tested the basis of the estimated amount to ensure that it was reasonable and in line with sums received to date from the Valuation Office Agency. We also confirmed that the LFC's intention to recognise the associated revenue in the 2017/18 financial year was in accordance with the applicable accounting framework.</p> <p>We identified no instances of error that were indicative of fraud.</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Area of Audit Focus	Conclusion
<p>Pension liability valuation</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the LFC to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The LFC's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the LFC's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the LFC by actuaries. As with other Local Government Bodies, accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.</p>	<p>We focused on aspects of the pension liability which could have a material impact on the financial statements, primarily:</p> <ul style="list-style-type: none">• significant changes in assumptions made by the actuary; and• the assessments of the actuary undertaken by PWC and the EY actuarial team. <p>The accounting entries and disclosures are in line with our expectations and the Code.</p> <p>We brought to the attention of the LFC a matter concerning the valuation of pension scheme assets by actuaries at an interim period. Where year end asset valuations have been estimated as at 31st December 2017, some schemes are seeing a material increase in actual asset valuations as at 31st March 2018. The LFC requested a revised IAS 19 report to ensure that the IAS 19 entries in the accounts are as accurate as possible, and as a result the pension liability increased by £3.4 million.</p>
<p>Valuation of property, plant and equipment</p> <p>Property, plant and equipment (PPE) represent significant balances in the LFC's accounts and are subject to valuation changes, impairment reviews and/or depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet.</p> <p>Last year a full revaluation was performed and this year only a desktop valuation was done for the majority of assets. Therefore it is appropriate to recognise property valuation as inherent risk.</p>	<p>We focused on aspects of the financial statements where management make judgements regarding:</p> <ul style="list-style-type: none">• significant changes in the asset base; and• the assumptions and estimates used to calculate the valuation. <p>The bulk of the LFC's estate relates to fire stations. These are specialised assets, and therefore a depreciated replacement cost methodology should be used to determine the existing use value. As disclosed in note 9 of the LFC's accounts, the valuer has departed from the Red Book and the Code in determining these valuations.</p> <p>We also note that the valuer has acted for the LFC over a period of 20 years, with the LFC's fees representing a significant proportion of total fee income of the firm. We considered whether or not this gives rise to an independence issue. We asked the valuer how they ensure that they maintain independence and confirmed that their control is to ensure peer review. We have ensured that this risk and the mitigation is disclosed in note 9 to the financial statements.</p> <p>We have not identified any material misstatements in the valuation of property assets.</p> <p>We have not identified significant changes in the asset base. The vast majority of the asset base has retained the same value (before depreciation) as the prior year, since procedures performed have demonstrated that asset values have not moved materially since the last full revaluation in 2016/17.</p> <p>We have confirmed the index used to form this assessment.</p> <p>We have satisfied ourselves that the departure from the Red Book and Code would not result in a materially different asset valuation in the context of the asset balance.</p>

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £11 million (2016/17: £11 million), which is 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the LFC .
Reporting threshold	We agreed with the London Fire Commissioner that we would report all audit differences in excess of £0.5 million (2016/17: £0.5 million)

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ The firefighters' pension fund statement
- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits
- ▶ Related party transactions.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.



04 Value for Money

We are required to consider whether the LFC has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.



We identified one significant risk around these arrangements related to the implementation of the Policing and Crime Act. The table that follows presents our findings in response to the risk outlined in our Audit Planning Report.

We had no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources, and therefore issued an unqualified value for money conclusion. We have noted, for your information, areas that we anticipate we will revisit to inform our conclusion in 2018/19.

Significant Risk	Conclusion
<p>Implementation of the Policing and Crime Act 2017</p> <p>As a result of the Policing and Crime Act 2017, on 1st April 2018 the London Fire and Emergency Planning Authority was abolished, and a new office known as the London Fire Commissioner was created as a corporation sole and a functional body of the Greater London Authority.</p> <p>These considerable governance changes pose a significant challenge to the LFC and will need to be appropriately managed.</p> <p>Additionally, in summer 2017, HMIC took on responsibility for inspections of England's fire and rescue services. The renamed HMICFRS have announced their intention to carry out a programme of inspections of Fire Authorities. The London Fire Commissioner is due to be inspected in the third tranche of assessments, in Spring 2019.</p>	<p><u>Governance</u></p> <p>We are satisfied that the arrangements made in 2017/18 to prepare for the transition to the London Fire Commissioner were appropriate. Due to the nature of the transition, a number of steps were taken in early April 2018.</p> <p>The creation of the London Fire Commissioner has provided an opportunity to evaluate the types of decisions made and the determine appropriate governance over those decisions. The Mayor of London issued a direction which noted the level of decision making which would be taken within City Hall, either directly by the Mayor or delegated to his newly appointed Deputy Mayor for Fire. As a result a revised scheme of delegation has been established and decisions made are published on the London Fire Brigade's website to ensure transparency.</p> <p>Scrutiny of decisions made is currently the responsibility of the newly established Fire, Resilience and Emergency Planning Committee which is a committee of the London Assembly. To date, the level of scrutiny is commensurate with that of the previous structure.</p> <p><u>Inspection readiness</u></p> <p>The LFC has also made good progress in preparing for inspection, although 2018/19 will be a more critical year for preparations. In 2017/18, the LFC liaised with the Metropolitan Police Service and the Mayor's Office for Policing and Crime and identified that there were resourcing implications from the new inspections. In 2018/19, approval was received for the creation of a project team. The LFC have engaged in national forums to understand lessons learned from pilot sites and the emerging thinking of the inspectorate.</p> <p><u>Other</u></p> <p>We also considered the LFC's progress in partnership working during 2017/18. Arrangements are in place to liaise and collaborate with other blue light services, as well as other community groups. Progress in this areas is now being monitored and communicated by the Blue Light Collaboration Programme Team.</p>

Other matters to report

As part of our work we have also considered other items on the national agenda, including management of key contracts, and gender parity. We met with officers responsible for managing contracts which we identified were key to service provision – training, fleet maintenance, and the property public finance initiative contract. In all instances, we were satisfied that arrangements were in place to identify and track performance issues, and to recover costs where possible under the terms of the contracts. There was also a good understanding of resourcing and capacity pressures faced by suppliers. We have no matters to report in respect of these arrangements.

Overall, we were satisfied that the arrangements in place in 2017/18 were such that a smooth transition from the Authority to the London Fire Commissioner was possible from 1st April 2018. We note that the revised governance arrangements are new, and officers of the LFC have said that they will be evaluating the effectiveness of the arrangements on an ongoing basis and updating them as necessary to ensure that they continue to be fit for purpose.

In 2018/19 we will review key decisions made in the year, as well as the scrutiny and challenge provided by the Fire, Resilience, and Emergency Planning Committee. We will consider and challenge the LFC's own assessment of the effectiveness of the structure.

Opportunities for greater blue light collaboration are being explored, and we will monitor the development of the collaboration strategy.



05

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the LFC for Whole of Government Accounts purposes. Although the LFC is above the specified audit threshold of £500 million, this is due to accounting charges relating to pensions liabilities. We were therefore only required by the NAO to report the consistency of these entries with the audited financial statements. We performed no further audit procedures on the consolidation pack. We had no matters to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the LFC's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the LFC or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the LFC to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to London Fire Commissioner on 10 July 2018. 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 regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

We did, however, report the following areas where improvements could be made to the operation or design of controls to reduce the risks of error.

Contract Register

A contract register is maintained by the LFC, which is intended to capture all of the brigade contracts. The register is updated via an online form. The expectation is that the register is complete and accurate. Although the register is held within the procurement team, where contracts do not involve procurement the expectation is that other departments will provide the necessary information to ensure that the register is complete and accurate.

From our work we identified two instances where the process had not operated as designed. We noted one material contract for the sale of an asset was not included on the register, and another material contract for the design and build of fire stations was shown at a nil value.

We would therefore recommend that all departments are reminded of the process that needs to be followed so that the contract register can be relied upon by the LFC as a complete record. We note that Internal Audit will be completing work in this area during the 2018/19 financial year and we anticipate placing reliance on their findings to support our assessment.

Evidence supporting expenditure

Our testing again identified instances where expenditure could not be easily verified. As well as resulting in inefficiencies in the audit process, this limits the ability of finance staff to appropriately check that anticipated expenditure has been incurred, that it is recognised at the correct value, and reflected in the appropriate financial year. This is particularly true of accrued expenditure. We are aware that management intend to introduce a system to ensure that accruals are appropriately supported by evidence.



06

Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the LFC is summarised in the table below.

Standard	Issue	Impact
IFRS 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the LFC will have to:</p> <ul style="list-style-type: none"> • Reclassify existing financial instrument assets • Re-measure and recalculate potential impairments of those assets; and • Prepare additional disclosure notes for material items.
IFRS 15 Revenue from Contracts with Customers	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> • Leases; • Financial instruments; • Insurance contracts; and • For local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers.</p> <p>The LFC has determined that this will not have a material impact, but will need to revisit and confirm this assessment during 2018/19.</p>



Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the LFC will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The LFC must therefore ensure that all lease arrangements are fully documented.</p>



07

Audit Fees

Audit Fees

Our fee for 2017/18 is set out in the table below. The scale fee shown is set by the PSAA and reported in our 19 March 2018 Audit Plan.

Description	Final Fee 2017/18 £	Planned Fee 2017/18 £	Scale Fee 2017/18 £	Final Fee 2016/17 £
Audit Fee – Scale Fee	67,482	67,482	67,482	67,482
Change in scope - Valuations	-	-	-	2,584
Change in scope – Additional procedures to address misstatements identified during the course of the audit	6,262	-	-	4,170
Total Audit Fee	73,744	67,482	67,482	74,236

The variance to the scale fee shown above relates to the additional time spent on expenditure testing, as well as time incurred responding to the misstatements identified during the course of the audit.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

The additional fee noted has been agreed with management and is subject to approval by Public Sector Audit Appointments (PSAA).

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