The Annual Audit Letter
for Kent and Medway Towns Fire Authority

Year ended 31 March 2016
4 October 2016

Emily Hill
Director
T 0207 728 3259
E emily.hill@uk.gt.com

Terry Blackman
Audit Manager
T 0207 728 3194
E terry.blackman@uk.gt.com

Keyasha Pillay
Executive
T 0207 728 2494
E keyasha.pillay@uk.gt.com
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Executive summary</td>
<td>3</td>
</tr>
<tr>
<td>2. Audit of the accounts</td>
<td>5</td>
</tr>
<tr>
<td>3. Value for Money conclusion</td>
<td>9</td>
</tr>
</tbody>
</table>

## Appendices

A Reports issued and fees
Executive summary

**Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Kent and Medway Towns Fire Authority (the Authority) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Authority and its 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 (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Authority's General Purposes Committee as those charged with governance in our Audit Findings Report on 15 July 2016.

**Our work**

**Financial statements opinion**

We gave an unqualified opinion on the Authority's financial statements on 15 July 2016.

**Value for money conclusion**

We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 15 July 2016.

**Our responsibilities**

We have carried out our audit in accordance with the NAO's Code, 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 and Ireland) (ISA(UK&I)s) and other guidance issued by the NAO.
Certificate
We certify that we had completed the audit of the accounts of Kent and Medway Towns Fire Authority in accordance with the requirements of the Code on 5 September 2016.

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 2016
Audit of the accounts

Our audit approach
Materiality
In our audit of the Authority's accounts, 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 our audit of the Authority's accounts to be £1,573,000, which is 2% of the Authority's gross revenue expenditure. We used this benchmark, as in our view, users of the Authority's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as cash and senior officer remuneration for example due to increased public interest. We set a lower threshold of £79,900, above which we reported errors to the General Purposes Committee in our Audit Findings Report.

The scope of our audit
Our audit involves obtaining enough 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 Authority's accounting policies are appropriate, have been consistently applied and adequately disclosed;
• 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 narrative report and annual governance statement to check they are consistent with our understanding of the Authority and with the accounts on which we give our opinion.

We carry out our audit in line with ISA(UK&I)s and the NAO Code. We believe 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 was 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

Audit opinion
We gave an unqualified opinion on the Authority's accounts on 15 July 2016, well in advance of the 30 September 2016 national deadline.

The Authority made the accounts available for audit in line with the agreed timetable, 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 accounts
We reported the key issues from our audit of the accounts of the Authority to the Authority's General Purposes Committee on 15 July 2016.

The key messages arising from our audit of the Authority's financial statements are:

- the draft financial statements provided to audit were prepared in advance of the statutory deadline, already meeting the requirements for earlier closedown that will apply from 2017/18
- the financial statements were supported by comprehensive supporting working papers and the finance team and other officers responded promptly and knowledgeably to audit queries.

A small number of minor amendments to disclosures were agreed, with no impact on the Authority's reported financial position.

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

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Authority and with our knowledge of the Authority.
Audit of the accounts

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

<table>
<thead>
<tr>
<th>Risks identified in our audit plan</th>
<th>How we responded to the risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating expenses</td>
<td>As part of our audit work we:</td>
</tr>
</tbody>
</table>
| Risk: Creditors understated or not recorded in the correct period, operating expenses understated | • documented and confirmed the processes and controls in place around the accounting for operating expenses  
• undertook substantive testing on a sample of operating expenses, and carried out cut-off testing to ensure operating expenses had been accurately accounted for and in the correct period  
• tested the completeness of the subsidiary system (purchase ledger) interfaces with the ledger  
• documented the processes in place for year end accruals, and carried out substantive testing of a sample of creditor balances including accruals  
• reviewed post year end payments made to identify unrecorded liabilities.  
We did not identify any issues to report |
| Employee remuneration (Payroll)  | As part of our audit work we:                                                                                                                                                                                                       |
| Risk: Employee remuneration and benefit obligations and expenses understated. | • documented and confirmed the processes and controls in place around the accounting for employee remuneration (payroll)  
• undertook substantive testing on a sample of employees and completed a monthly trend analysis to identify any unusual or irregular movements for investigation  
• reviewed the monthly payroll reconciliation to ensure that information from the payroll system could be agreed to the ledger and the financial statements  
• agreed employment remuneration disclosures to supporting documentation and reviewed disclosures on senior officer remuneration and pensions to ensure they complied with the requirements  
• reviewed year end employee remuneration accruals and agreed to supporting documentation where significant.  
We did not identify any issues to report |
| Firefighters' pensions benefit payments | As part of our audit work we:                                                                                                                                                                                                       |
| Risk: Benefits improperly computed/ claims liability understated | • documented and confirmed the processes and controls in place around the accounting for Firefighters' pensions benefit payments agreed pension disclosures in the financial statements to supporting evidence  
• completed a monthly trend analysis to identify any unusual or irregular movements for investigation, and rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends were satisfactorily explained.  
We did not identify any issues to report |
Audit of the accounts (cont.)

<table>
<thead>
<tr>
<th>Risks identified in our audit plan</th>
<th>How we responded to the risk</th>
</tr>
</thead>
</table>
| **Estimates and judgements – valuation of property plant and equipment**  
The Authority revalues its entire land and building portfolio every 5 years. Between full revaluations, at the end of each year values are reviewed and an adjustment needs to be made for any impairment or increase in valuation as appropriate. Material additions to the premises estate also need to be brought onto the balance sheet at an appropriate value.  
The Authority relies on the expertise of an external valuer in estimating the value of its property plant and equipment. | As part of our audit work we:  
• reviewed the accounting policy adopted for property, plant and equipment to ensure that it was appropriate under the Authority's accounting framework  
• reviewed the qualifications and competence of the Authority's external valuer  
• reviewed the key assumptions made by the Authority (e.g. asset lives, market movements) for reasonableness  
• undertook testing to ensure additions were fully and appropriately accounted for, and to ensure the information in the valuer's report was accurately and appropriately reflected in the financial statements.  
**We did not identify any issues to report** |
| **Estimates and judgements – pension fund liability**  
Estimation of the Authority's net liability to pay pensions under the Local Government and Firefighters pension schemes depends on a number of complex judgements.  
Actuaries are engaged to provide the Authority with expert advice about the assumptions to be applied. | As part of our audit work we:  
• reviewed the accounting policy adopted for the pension fund liability to ensure that it was appropriate under the Authority's accounting framework  
• reviewed the qualifications and competence of the Authority's actuary  
• reviewed the key assumptions made by the Authority (e.g. discount rates, life expectancy, increases in salary) for reasonableness, and considered whether the Authority had given due consideration to the range of possible outcomes  
• Considered the accuracy of data supplied to the actuary and obtained assurance from the auditor of Kent County Council regarding the operation of controls in the pension schemes it administers on behalf of the Authority  
• undertook tests to ensure the information in the actuaries' reports was accurately and appropriately reflected in the financial statements.  
**We did not identify any issues to report** |
Value for Money conclusion

Background
We carried out our review in accordance with the NAO Code, following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate which was that:

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 in table 2 overleaf.

As part of our Audit Findings report agreed with the Authority in July 2016, we agreed one recommendation to address our findings, that the Authority monitor the initiatives designed to improve response performance on life threatening incidents to ensure that improvements in response times are delivered and the Authority achieves the targets it has set itself.

Overall VfM 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 2016.
## Value for Money

<table>
<thead>
<tr>
<th>Risk identified</th>
<th>Work carried out</th>
<th>Findings and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Medium term financial plan</strong></td>
<td>The Authority’s medium term financial planning has identified the need for £8.1 million of savings over the next four years, £3.8m of which is required in 2016/17. We reviewed the Authority’s saving plans and the sensitivity of the medium term financial plan to potential changes in assumptions, for assurance that these are sufficiently robust.</td>
<td>The Authority has sound arrangements for developing, updating and implementing its medium term financial plan (MTFP). Focus on achievement of corporate priorities is evident through the financial planning process, and the MTFP ensures that resources are focused on priorities. Service and financial planning processes are well integrated, and the MTFP is consistent with other key strategies, including workforce plans. There are adequate plans in place to address identified funding gaps, and there is regular review of the MTFP and the assumptions made within it. It has performed sensitivity analysis on its financial model using a range of economic assumptions. The Authority responds to changing circumstances and manages its financial risks effectively.</td>
</tr>
<tr>
<td><strong>Achieving key service targets</strong></td>
<td>In December 2015 the Authority reported that its performance was below target for the majority of fire indicators, including attendance at life-threatening incidents which we reported on in our VfM findings for 2014/15. We reviewed the Authority’s plans to deliver an improved performance against its performance indicators, in the context of its comparative performance nationally.</td>
<td>For attendance at life-threatening incidents within 10 and 12 minutes, the Authority continued to underperform against its targets of 80% and 89% respectively. As noted when we reported on this last year, the target covers both fires and road traffic collisions (RTCs) and in both cases the performance for fire incidents is above target, but the underperformance on RTCs reduces the Authority’s overall performance to below target level. Figures for the full year for 2015/16 show that response times to life-threatening incidents within 10 and 12 minutes were 76.5% and 85.8%, in both cases slightly better than performance last year (75.8% and 85.7% respectively). We note that the Authority performs well compared to other authorities nationally – for example, recent statistics on fire incidents response times from the Department of Communities and Local Government (DCLG) showed that the Authority was one of only five who reported a decrease in average response times for all primary fire incidents in 2014/15 when compared to the previous year. The Authority continues to have a wide range of initiatives designed to improve performance on life threatening incidents, and the impact of these continues to be monitored to ensure their effectiveness. <strong>Recommendation:</strong> Monitor the initiatives designed to improve response performance on life threatening incidents to ensure that improvements are delivered and the Authority achieves the targets it has set itself.</td>
</tr>
</tbody>
</table>
Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and the provision of non-audit services.

<table>
<thead>
<tr>
<th>Fees</th>
<th>Planned £</th>
<th>Actual fees £</th>
<th>2014/15 fees £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory audit of Authority</td>
<td>35,608</td>
<td>35,608</td>
<td>47,477</td>
</tr>
<tr>
<td>Total fees (excluding VAT)</td>
<td>35,608</td>
<td>35,608</td>
<td>47,477</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fees for other services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service</td>
</tr>
<tr>
<td>Non-audit services - Tax services</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reports issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report</td>
</tr>
<tr>
<td>Audit Plan</td>
</tr>
<tr>
<td>Audit Findings Report</td>
</tr>
<tr>
<td>Annual Audit Letter</td>
</tr>
</tbody>
</table>