

Annual Audit Letter

Tyne and Wear Fire and Rescue Authority

Year ending 31 March 2019





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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Tyne and Wear Fire and Rescue Authority (the Authority) for the year ended 31 March 2019. Although this letter is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Authority's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that:</p> <ul style="list-style-type: none">• the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for Money conclusion	<p>Our report concluded that we are satisfied that in all significant respects, the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p>
Reporting to the group auditor	<p>On 31 July 2019 we reported that your activity was below the threshold set by the NAO, meaning we were not required to review the Whole of Government Accounts return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Authority.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Authority and whether they give a true and fair view of the Authority's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Authority on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of the Authority's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Governance Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 2% of gross operating expenditure at surplus / deficit on provision of services level	£1.134m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.034m

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Authority's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Governance Committee within the Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> accounting estimates impacting on amounts included in the financial statements; consideration of identified significant transactions outside the normal course of business; and journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Audit work in respect of estimates identified that the minimum revenue provision had been incorrectly calculated, resulting in an amendment of £0.394 million in 2018/19, impacting upon earmarked revenue reserves.</p> <p>There were no other significant issues arising from our work that we were required to report to you.</p>
<p>Property, plant and equipment valuations</p> <p>The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Authority's holding of property, plant and equipment (PPE).</p> <p>The Authority uses a valuation expert to provide information on valuations, however there remains a high degree of estimation uncertainty associated with the (re) valuations of PPE due to the significant judgements and number of variables involved.</p>	<p>We addressed this risk via:</p> <ul style="list-style-type: none"> critically assessing the Authority's arrangements for ensuring that PPE valuations were reasonable; critically assessing the data provided by Gerald Eve (an expert commissioned by the National Audit Office) as part of our challenge of the reasonableness of the valuations provided by the Authority's Valuer; considering the competence, skills and experience of the Valuer and the instructions issued to the Valuer; and where necessary, performing further audit procedures on individual assets to ensure the basis of valuations was appropriate. 	<p>Following audit work, Assets Held for Sale were reclassified to the category of Surplus assets, in line with underlying requirements.</p> <p>We also reported several non-material errors in relation to accounting for capital expenditure, namely:</p> <ul style="list-style-type: none"> the incorrect split of the PFI liability between short and long-term; an error in respect of the accounting for revaluations; and an error in respect of the accounting for the revaluation of the HQ and Training Centre. <p>Overall we obtained the assurance sought that PPE valuations were not materially misstated.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p>Defined benefit liability valuation (pensions)</p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We addressed this risk via:</p> <ul style="list-style-type: none"> critically evaluating the Authority's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; challenging the reasonableness of the Actuary's assumptions that underpin the relevant entries made in the financial statements, through the use of an expert commissioned by the National Audit Office; and considering the prior period adjustments made in respect of the pensions prepayment and fire injury over claim. 	<p>The Authority amended its financial statements for £37.240 million of additional liabilities arising from Guaranteed Minimum Pension equalisation and the McCloud judgement.</p> <p>We would highlight the above issues impacted on all authorities as a result of clarification of the liabilities.</p> <p>Following the amendments made, we obtained the assurance required, with no other significant issues arising we were required to highlight to you.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

We identified no significant deficiencies in internal control as part of our audit and one medium priority recommendation.

We followed-up the prior year recommendation during the audit, which is also detailed below.

Description of deficiency	Pension payment calculations (Level 2 – medium priority) From April 2018, the Authority has outsourced calculation of firefighter pensions (including lump sums) to West Yorkshire Pension Fund (WYPF). A contract is in place. The Authority carries out a 'high level' reasonableness check on the schedule received from WYPF on a monthly basis. In our view, the Authority should consider how to strengthen the assurance it has that the data processed by WYPF is accurate; it may also wish to build this into the contract terms and conditions.
Potential effects	Risk of fraud and / or error.
Recommendation	The Authority should consider how to strengthen the assurance it has that the data processed by WYPF is accurate.
Management response	We will consider this recommendation against the existing provisions in the contract and the assurance we receive to see if there is scope for strengthening arrangements.

Follow-up of prior year recommendation

Description of deficiency	Error identified in the calculation of a widow's pension (Level 2 – medium priority) We identified an error in the calculation of a widow's pension, namely an underpayment of pension of approximately £2.5k in a six month period. We extended our sample and were able to gain assurance there were no other errors based on further sample testing.
Potential effects	Ensuring correct pension payments is essential to support those who have worked for the Authority and their dependents.
Recommendation	The Authority must ensure that all widows pensions are calculated accurately.
Management response	The Authority has recently changed its administrator for firefighters' pensions, and the Finance Manager has asked the new provider to review the calculations of all widows pensions.
2018/19 update	There were no material issues arising from our 2018/19 testing.

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

Our approach to Value for Money

We are required to consider whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision-making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor's report, issued to the Authority on 31 July 2019, stated 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 31st March 2019.

Sub-criteria	Commentary	Arrangements in place?
Informed decision-making	<p>The Authority has continued to report regularly on its financial performance to the Policy and Performance Committee and the full Authority. The 2018/19 outturn was an overall net underspend of £1.288m (2017/18 £1.273m), with the Authority having a good track record of effective budget management.</p> <p>The Authority's General Fund unearmarked balance is £3.943m as at 31 March 2019 (£3.943mm as at 31 March 2018). As financial pressures continue, the Authority should keep under consideration the adequacy of this balance.</p> <p><i>Managing risks effectively and maintaining a sound system of internal control</i></p> <p>The governance framework is set out in its Annual Governance Statement (AGS), published as part of its Annual Report including financial statements, along with how the effectiveness of that framework is reviewed throughout the year.</p> <p>The AGS also sets out the governance issues the Authority has identified for monitoring and action in the coming year which include:</p> <ul style="list-style-type: none"> • implementation of the Emergency Services Mobile Communication Programme • developing the corporate performance report; • acting upon the HMICFRS inspection; • ensuring project management approach applied to all projects; • developing succession planning; and • replacement HR system. <p>The Authority received an overall internal audit opinion for 2018/19 which concluded there continues to be a good internal control environment. A comprehensive internal audit plan is in place which takes into account the strategic priorities of the Authority. There is challenge by the Governance Committee over coverage and risk areas.</p>	Yes

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3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

Our approach to Value for Money (continued)

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>The Authority has continued to make good progress in addressing the financial challenges from public sector austerity and has a proven track record of delivering planned budget reductions.</p> <p><i>Financial resilience</i> The Authority's usable reserves (excluding its general fund balance) were £25.038 million as at 31 March 2019 (£21.040 million at 31 March 2018). Although these are earmarked for specific purposes, they do provide flexibility to manage the medium-term financial position. The Authority continues to face a funding gap to address in coming years, therefore further savings and / or sources of additional income continue to be required, which the Authority is well aware of and actively exploring options.</p> <p><i>Performance management</i> A comprehensive performance report is produced and reported to the Policy and Performance Committee on a policy basis and includes service actions. The results of the recent pilot on incident response standards highlighted that performance against the draft response standards was generally good. Detailed monitoring and analysis is continuing throughout the pilot.</p>	Yes
Working with partners and other third parties	<p>The Authority continues to work with a range of partners and third parties.</p> <p>The Government's Policing and Crime Act includes a statutory duty on all three emergency services to collaborate with each other to improve efficiency and effectiveness. It also seeks to enable Police and Crime Commissioners to take on fire and rescue responsibilities in their area where a local case is made. The Police and Crime Commissioner is a Member of the Fire Authority. The Authority is already co-located with the police service at some stations.</p> <p>The recent HMICFRS inspection report highlighted that whilst it had seen some good examples of the service working more closely with partner agencies, it believed the Authority has yet to realise the full potential benefits of collaboration.</p> <p>The Authority's trading company TWFRS Limited again reported a small net profit in 2018/19. Developing a more commercial approach is common to many local authorities and trading companies present both opportunities and challenges; this is an area where oversight needs to be maintained, to ensure appropriate governance arrangements are maintained.</p>	Yes

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4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below review threshold
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Authority's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the Whole of Government Accounts (WGA) Assurance Statement in respect of its consolidation data. On 31 July 2019 we reported that your activity was below the threshold set by the NAO, meaning we were not required to review the WGA return.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Authority. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Governance Committee in March 2019.

Having completed our work for the 2018/19 financial year, we can confirm our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice	£23,590	£23,590*

* subject to discussions in respect of the additional audit work arising from the McCloud /GMP pensions issue and other amendments.

Fees for other work

We confirm that we have not undertaken any non-audit services for the Authority in the year.

6. FORWARD LOOK

Next year's audit and how we will work with the Authority

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In the coming year we will continue to:

- liaise with the Authority's Internal Auditors to minimise duplication of work;
- attend Governance Committee meetings and present Audit Progress Reports including updates on regional and national developments; and
- host events for officers such as our Local Government Accounts workshop.

We will meet officers to identify any learning from the 2018/19 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

The Authority has taken a positive and constructive approach to our audit and we wish to thank Members, the Governance Committee and officers for their support and co-operation during our audit.

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