

Annual Audit Letter

Tyne and Wear Fire and Rescue Authority

Year ending 31 March 2020





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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 2020. Although our 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 information 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 2 December 2020 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 2020 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 2019/20.
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that the other information in the Statement of Accounts is consistent with the audited financial statements.</p>
Value for money conclusion	<p>Our auditor's 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 2020.</p>
Reporting to the group auditor	<p>In line with group audit instructions, issued by the NAO, on 2 December, 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 section 24 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: Tyne and Wear Fire and Rescue Authority

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 relevant financial reporting framework and whether they give a true and fair view of the Authority's financial position and of its financial performance.

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 stated that, in our view, the financial statements give a true and fair view of the Authority's financial position as at 31 March 2020 and of its financial performance for the year then ended. We emphasised material uncertainties in our auditor's report, as set out below:

Emphasis of Matter – effect of the Covid-19 pandemic on the valuation of land and buildings

We drew attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings. As disclosed in Note 4 of the financial statements, the Authority's Valuer included a material valuation uncertainty declaration within their valuation reports as a result of the Covid-19 pandemic. Consequently, less certainty and a higher degree of caution needs to be attached to the valuation of land and buildings than would normally be the case. Our opinion was not modified in respect of this matter.

Emphasis of Matter – effect of the Covid-19 pandemic on the valuation of pension fund property investments

We drew attention to Note 4 of the financial statements, which described the effects of the Covid-19 pandemic on the valuation of the Authority's share of Tyne & Wear Pension Fund's direct property and pooled residential property investments as at 31 March 2020. As disclosed in Note 4 of the financial statements, the outbreak of Covid-19 had a significant impact on the number of transactions in the market and consequently the relevant observable data available upon which to base a valuation judgement. As such the Pension Fund's property investment manager included a material valuation uncertainty clause in some of their 31 March 2020 valuation reports due to the possible impact of Covid-19. Consequently, less certainty and a higher degree of caution needs to be attached to valuations of unquoted property assets than would normally be the case. Our opinion was not modified in respect of this matter.



2. AUDIT OF THE FINANCIAL STATEMENTS: Tyne and Wear Fire and Rescue Authority

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work (continued)

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 materiality 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. We 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) because of the nature of certain 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 2020:

		Authority
Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure at the surplus/deficit on provision of services	£1.331m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality	£0.040m



2. AUDIT OF THE FINANCIAL STATEMENTS: Tyne and Wear Fire and Rescue Authority

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 and key areas of management judgement identified at the planning stage to the Governance Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report.

The following tables summarise the identified risks, the work we carried out and our conclusions.

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>The risk has increased as a result of the economic downturn arising from COVID-19.</p>	<p>How we addressed this risk</p> <ul style="list-style-type: none"> we challenged the reasonableness of the actuarial assumptions that underpin the relevant entries made in the financial statements, through the use of an expert commissioned by the National Audit Office. we critically evaluated the Authority's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; we assessed the competency, objectivity and independence of the Actuaries; being AON Hewitt for the Local Government Pension Scheme (LGPS) and the Government Actuarial Department for the Firefighters' Pension Scheme; we liaised with the auditors of the LGPS Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively, in particular given the triennial valuation; and we agreed data in the valuation reports for accounting purposes to the relevant accounting entries and disclosures in the Authority's financial statements. 	<p>Revised GAD report: the Authority received a revised actuarial report in respect of Firefighters Pension Scheme from the Government Actuarial Department (GAD), which has resulted in an amendment to the financial statements, reducing the net pensions liability by £3.880 million. This was as a result of a refinement to the calculation of liabilities, arising from the McCloud judgement, following the Treasury consultation into the remedy, published in the summer of 2020.</p> <p>As set out earlier in this letter, we drew attention to the material uncertainty disclosed by the Authority in relation to pension fund property investment valuations, as disclosed in the financial statements. Our opinion was not modified in respect of this matter.</p> <p>We did not identify any material misstatement of the Authority's pensions liability.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS: Tyne and Wear Fire and Rescue Authority

Our response to significant risks

Identified significant risk	Our response	Our findings and conclusions
<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.</p> <p>The Authority employs a valuation expert to provide information on valuations, however, there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment due to the significant judgements and number of variables involved.</p> <p>The risk has increased as a result of the economic downturn arising from COVID-19. We note also the Valuation Practice Alert issued by the valuation body The Royal Institute of Chartered Surveyors (RICS) recently. This highlighted the use by Valuers, where appropriate, of material uncertainty declarations in their valuation reports.</p>	<p>How we addressed this risk:</p> <ul style="list-style-type: none"> we assessed the Authority's arrangements for ensuring that property, plant and equipment valuations are reasonable; we critically assessed the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by the Valuer; we considered the competence, skills and experience of the Valuer and the instructions issued to the Valuer; we substantively tested capital expenditure additions and disposals during the year; we substantively tested the Authority's property, plant and equipment to gain assurance that they exist and are owned by the Authority; we substantively tested revaluations, including critically reviewing the Authority's own consideration of assets not revalued in the year and why they are not materially misstated; we critically considered any material uncertainties expressed by the Valuer used by the Authority and considered any implications on our audit work; and where necessary, we performed further audit procedures on individual assets to ensure the basis of valuations is appropriate. 	<p>Year-end Valuer's report: the Authority did not receive its formal year-end report from the Valuer until after the draft financial statements were authorised for issue; this report is a key document relevant to management's approval of the financial statements and should be available prior to authorisation. However, we acknowledge and recognise the significant impact of the pandemic this year, resulting in additional pressures and competing demands on time.</p> <p>Testing had identified an error in relation to floor areas used in the valuations of land and buildings. The Authority carried out further work, checking the floor area plans and revised valuations were produced. The net impact was that property, plant and equipment was understated by an estimated £0.109 million.</p> <p>Overall As set out earlier in this letter, in our auditor's report, we drew attention to the material uncertainty disclosed by the Authority's Valuer.</p> <p>We did not identify any material misstatement of the Authority's Property, Plant & Equipment.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS: Tyne and Wear Fire and Rescue Authority

Our response to significant risks

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls 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. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We addressed the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>	<p>Audit work identified a housekeeping recommendation, in respect of management ensuring that the year-end calculation of the impairment of debtors is appropriately included in the statement of accounts.</p> <p>There were no significant issues arising from our work that we were required to report to you.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS: Tyne and Wear Fire and Rescue Authority

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 the following deficiencies in internal control as part of our audit.

Description of deficiency	<p>Members' allowances and expenses – level 2 (medium priority)</p> <p>Special Responsibility Allowances (SRAs) have been incorrectly claimed by the constituent Authorities for several Members, for both 2019/20 and 2018/19. There also appears to be inconsistency in respect of Employer's National Insurance contributions paid for Members' allowances; some of the constituent Authorities claim for this from Tyne and Wear Fire Authority (the Authority), others do not.</p> <p>Disclosure note 24 in the draft financial statements sets out Members' allowances and expenses totalling £101k for 2019/20 and £102k for 2018/19, as compared to the approved budget of £87k. The revised disclosure, at the time of issuing this report, is £86k for 2019/20 and £92k for 2018/19, being a decrease of £15k and 10k respectively.</p> <p>Members' allowances are approved by the Tyne and Fire Wear Authority, however they are not paid directly by the Authority to Members. Instead, the constituent Authorities invoice the Authority as they make payments to their own Members directly. At this stage, it is not known if any Members were paid the overclaimed allowances.</p> <p>The error appears to have arisen due to:</p> <ul style="list-style-type: none"> • errors in the invoices issued by the constituent Authorities; • billing methods and invoice details by the constituent Authorities varying, e.g. some being quarterly, others less frequent or after the year-end and also with varying degrees of detail on the invoices (some covering more than one Member), resulting in there being less clarity over the completeness and accuracy of Special Responsibility Allowances than if there was, for example, one single invoice; • lack of challenge by the Authority over the completeness and accuracy of the invoices prior to their authorisation; and • budget monitoring controls within the Authority not identifying the overspend on the Members' allowances and expenses code and / or following it up appropriately.
Potential effects	Risk of fraud and / or error.
Recommendation	<p>The Authority should check the amounts being claimed for Members' allowances when authorising for payment invoices from the constituent Authorities.</p> <p>The Authority should also consider prior years, to establish whether allowances have been under or overpaid in other recent years.</p>
Management response	This is being actioned.



2. AUDIT OF THE FINANCIAL STATEMENTS: Tyne and Wear Fire and Rescue Authority

Internal control recommendations

Description of deficiency	<p>Impairment of debtors allowance and write-offs - level 3 (housekeeping)</p> <p>The Authority has not provided an allowance for the impairment of debtors which are past due. Whilst the estimated impairment of debtors allowance for the year ended 31 March 2020 is clearly trivial at circa £6k (prior year estimate of c17k), an allowance should be made and formally reviewed each year.</p> <p>Review of the aged debtor analysis highlighted there are some very old debtor balances which probably should be written off by now, unless there is a realistic prospect of recovery; again, this was a clearly trivial amount of circa £3k.</p>
Potential effects	Outstanding debtor balances are not appropriately reviewed at the year-end in terms of their recoverability.
Recommendation	The Authority should ensure it reviews its debtor balances at the year-end and provides an appropriate amount, if required, for the impairment of debtors. The Authority should also review old outstanding debtors and consider if any require formally writing-off.
Management response	This will be actioned.

Description of deficiency	<p>Budget and outturn reporting: consistency of format - level 3 (housekeeping)</p> <p>The format of the budget and the outturn report is not fully consistent:</p> <ul style="list-style-type: none"> the budget for the year is done primarily on a subjective basis (i.e. firefighting, community safety basis), with detail on an objective basis (i.e. employees, supplies and services) shown in the detailed budget book; the in-year budget monitoring reporting is done on an objective basis; and the outturn report is done on an objective basis. <p>The statutory accounts headings used in the Income and Expenditure Statement should be derived from the in-year budget monitoring format used by the Authority. Currently they use the subjective basis from the original budget, rather than the objective basis of in-year budget monitoring and the outturn.</p> <p>We note also that the outturn reported in the Narrative Statement is a hybrid of the original budget (on a subjective basis), as well as, for the 'actuals', the statutory accounting adjustments, meaning some of the actuals will always differ significantly to the reported budget, as they are not being reported on a like-for-like basis. Whilst this is explained in the Narrative Statement, this inconsistency could be addressed.</p>
Potential effects	Different formats of budget reporting between the budget and the actuals may make it more difficult for stakeholders to understand what is being reported.
Recommendation	The Authority should consider the format of budget monitoring, in particular whether the year-end outturn reporting should mirror the subjective basis of the budget and consider again the outturn reported in the Narrative Statement, so that it more clearly mirrors the outturn reporting to the Authority. Any changes to the format of reporting need to be considered for the statutory accounts also.
Management response	This will be considered.



2. AUDIT OF THE FINANCIAL STATEMENTS: Tyne and Wear Fire and Rescue Authority

Prior year internal control recommendations

Description of deficiency	Pension payment calculations - level 2 (medium priority) As 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.
Position for 2019/20	This recommendation has been actioned.



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified
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Our audit approach

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, 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 2020.

Sub-criteria	Commentary	Arrangements in place?
Informed decision-making	<p>The Authority developed and introduced its new TWFRS 2025 programme in September 2020, which sets out how the three pillars of Inclusion, All Hazards Approach and Digital and Data transformation will drive transformational change so it can continue on its journey of continuous improvement. TWFRS 2025 is a programme of works that aligns all major and key projects and investments into a single consolidated strategic approach to change and Service improvement.</p> <p>The Authority has continued to report regularly on its financial performance to the Policy and Performance Committee and the full Authority. The 2019/20 outturn was an overall net underspend of £1.515m (2018/19 £1.681m), with the Authority having a good track record of effective budget management. The Authority’s General Fund unearmarked balance is £3.943m (£3.943mm as at 31 March 2019). 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>	Yes

(continued)



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Sub-criteria	Commentary	Arrangements in place?
Informed decision-making (continued)	<p>The AGS also sets out the governance issues the Authority has identified for monitoring and action in the coming year which includes:</p> <ul style="list-style-type: none"> • implementation of the Emergency Services Mobile Communication Programme; • establishing corporate oversight of the TWFRS partnership register; and • assessing and evaluating the impact of Covid-19 on governance arrangements. <p>The Authority received an overall internal audit opinion for 2019/20 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
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 £29.420 million as at 31 March 2020 (£25.038 million at 31 March 2018). The underspend for the year has been earmarked in a specific Covid-19 reserve. 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.</p>	Yes



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified
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Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>This Authority has been at the forefront in supporting the LRF Response to the Covid-19 pandemic in the North East Region. The Authority has highlighted that its response to the pandemic, alongside partners has been due to its strong industrial relationships with representative bodies, the unequivocal flexibility of staff and dedication of retired staff members. The Authority also recognises how its numerous support departments continue to work above and beyond to enable the Authority to function effectively in the ever-changing environment.</p> <p>A Covid-19 related tripartite agreement is in place with key partners.</p> <p>The Authority has provided regular updates on Covid-19 service activity, covering all aspects of operations. The latest highlights how the Fire Safety Department continue to build on new ways of working, with wider engagement with business owners and managers through virtual contact, to discuss potential changes they have to make to their properties and working practices due to the Covid-19 restrictions.</p> <p>Her Majesty’s Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) assessed the Authority as ‘good’ in 2019. The recent HMICFRS inspection has not yet been formally reported; we understand this will be reported in a letter format and will focus on the Authority’s response to the pandemic.</p> <p>The Authority’s trading company TWFRS Limited reported a loss of £271k for 2019/20 (prior year small profit of £25k). This loss has arisen due to the liquidation of Impeller Assurance and Resilience Limited in late 2019; this is set out in the Authority’s financial statements, disclosure note 24, which references the interest-free loan of £225k to TWFRS Limited made in 2015, which in turn was lent, at a market rate of interest to Impeller Limited. The Authority should continue to keep governance arrangements for its trading company under review.</p>	Yes



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Consistent
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 2 December 2020 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 2020.

For the 2019/20 financial year, our fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£23,590	TBC*

* At the time of preparing this report, we are proposing additional fees to meet additional work required for:

- additional regulatory requirements in respect of land and building valuations, including additional considerations for material uncertainty disclosures made by the Valuer as a result of the pandemic;
- additional regulatory requirements in respect of pensions, including additional considerations for material uncertainty disclosures in respect of the Authority's share of the Pension Fund assets as a result of the pandemic;
- additional work due to the revised floor plans and valuations produced during the audit; and
- additional work as a result of the Authority's revised GAD report.



6. FORWARD LOOK

Financial outlook

The COVID-19 pandemic and the consequences of local and regional lockdowns and restrictions will have a significant impact on the UK economy for years to come. The pandemic has created significant uncertainties and pressures in the Authority's medium term financial planning arrangements. Clarity over the impact will only be obtained when the virus has been brought under control and the impact on the economy becomes clearer. The Authority is monitoring and updating plans but is anticipating future pressures in the income it receives. Public spending is also likely to be tightly controlled as the Government begins to manage the levels of borrowing incurred.

There is also uncertainty stemming from the UK's new trading arrangements with the European Union. While this may not directly impact on the Authority's supply chains, the impact on the overall economy may create indirect pressures.

It is critical that the Authority continues to monitor and refresh its medium term financial strategy, so that potential funding shortfalls can be identified as early as possible and mitigations identified to minimise the impact on services.

Strategic and operational challenges

The Covid-19 pandemic has had a significant impact on the services provided by the Authority. Key challenges for the year ahead include:

- implementation of its new "TWFRS 2025 programme" which sets out how the three pillars of Inclusion, All Hazards Approach and Digital and Data transformation will drive transformational change and aligns all major and key projects and investments into a single consolidated strategic approach to change and service improvement.
- implementation of the Emergency Services Mobile Communication Programme;
- establishing corporate oversight of the TWFRS partnership register; and
- assessing and evaluating the impact of Covid-19 on governance arrangements.

How we will work with the Authority

In terms of the technical challenges around the production of the statement of accounts, we will continue to offer accounting workshops to finance officers, and the audit team will continue to share our knowledge of new accounting developments. We will also be on hand to discuss any issues as and when they arise.

Given the impact of COVID-19 on the 2019/20 reporting timetable, there is some uncertainty in respect of the 2020/21 completion dates. We will continue to work with the finance team to ensure timely completion of our audit work.

We will also share relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.



6. FORWARD LOOK

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are, however, significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however, unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

- financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is release. In particular we will communicate any increases in work which will impact on the audit fees charged.



6. FORWARD LOOK

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



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