



South Yorkshire Fire and Rescue Authority

Report to the Audit & Governance Committee on the
2021/22 audit
15 January 2024

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Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our update report to the Audit and Governance Committee of South Yorkshire Fire and Rescue Authority (the Authority) for the 2021/22 audit. The scope of our audit was set out within our planning report presented to the Committee in May 2023.

Status of our Statement of Accounts audit

We have the following principal matters to complete as part of our audit:

- Receipt and subsequent review of pensions report from Deloitte pension specialists;
- Internal review of pensions testing and report received from Pension Fund auditors;
- Review of pensions adjustment posted by management and agreement to updated set of financial statements;
- Resolution of queries regarding Property Valuations;
- Cash Flow testing;
- Completion of reporting procedures, including going concern and subsequent events review;
- Review of updated Statement of Accounts;
- Completion of internal quality assurance procedures including follow up queries arising from review;
- Value for Money work;
- Receipt of signed management representation letter; and
- our review of events since 31 March 2022 through to signing.

Status of our Value for Money audit

Our Value for Money work will be reported in full in our Auditor's Annual Report which is to be reported within a three month timeframe from the date of signing the financial statements. However under AGN03 we are required to undertake sufficient work to conclude that there are no matters which could have a material bearing upon our audit prior to signing the financial statements opinion. Accordingly this work must be substantially completed before the audit opinion can be signed.

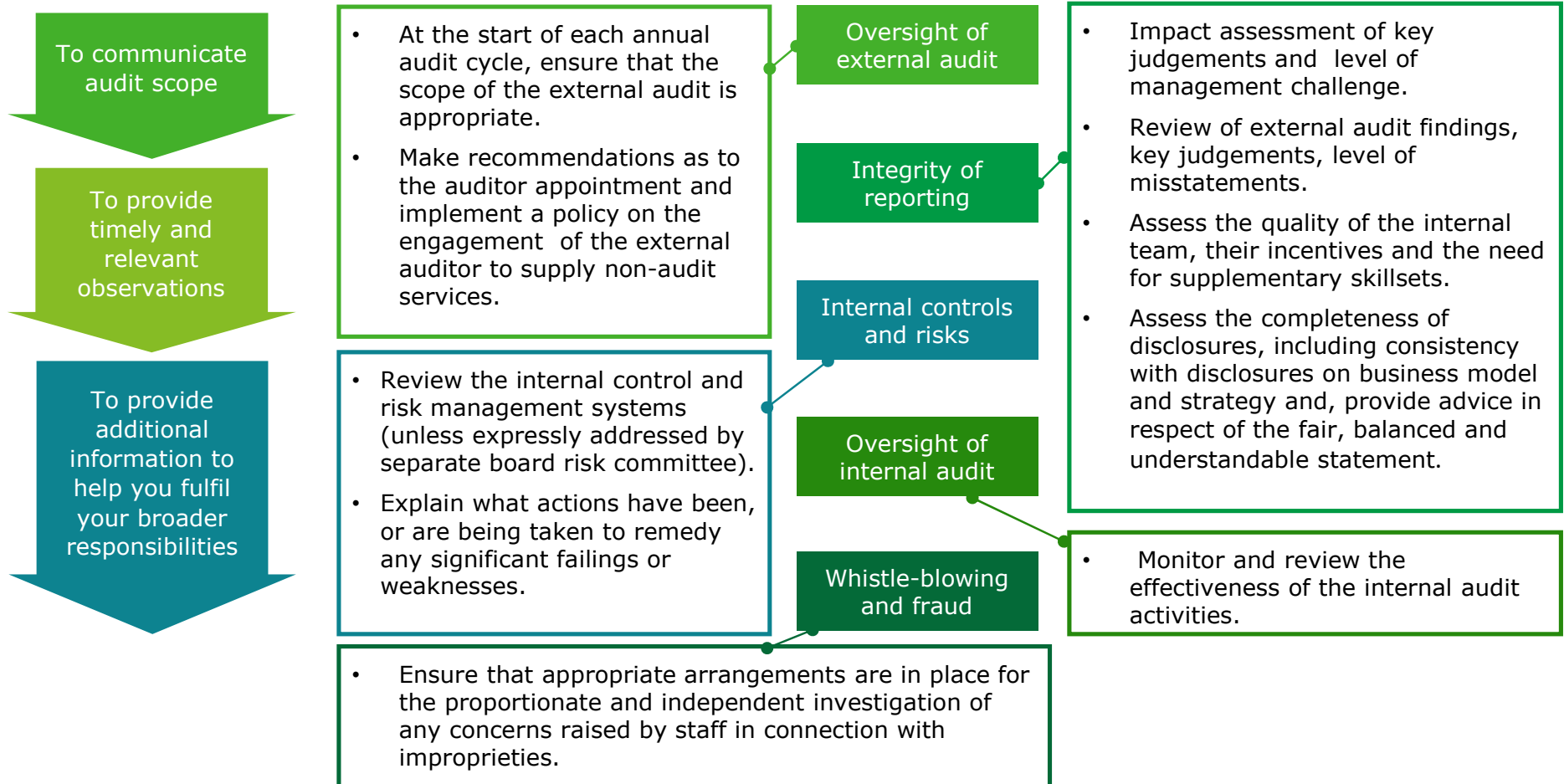
Our opinion will state that our Value for Money work is on-going.

Responsibilities of the Audit and Governance Committee

Helping you fulfil your responsibilities

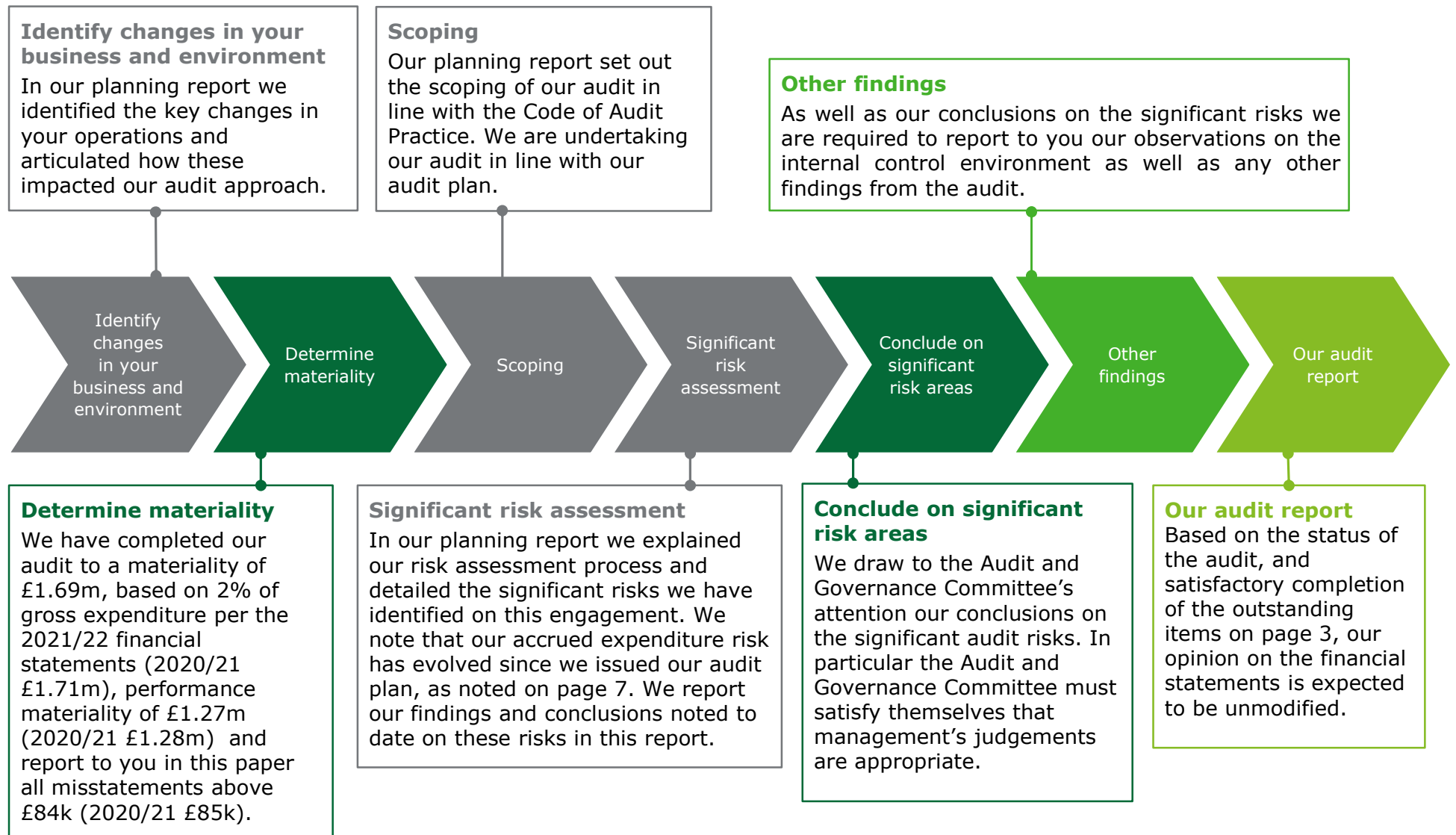
Why do we interact with the Audit and Governance Committee?

As a result of regulatory change in recent years, the role of the Audit and Governance Committee has significantly expanded. We set out here a summary of the core areas of Audit and Governance Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit and Governance Committee in fulfilling its remit.














Our audit explained

We tailor our audit to your business and your strategy



Significant Risks and Areas of Audit Focus Dashboard

Risk	Material	Fraud risk	Approach to controls testing	Level of management judgement	Expected to be included in our report to the Audit Committee	Page no.
Significant risks						
Completeness of Accrued Expenditure					Yes	8
Valuation or Property Assets					Yes	9
Management override of controls					Yes	10

Low Level of Judgement



Medium Level of Judgement



High Level of Judgement



Controls approach adopted



Assess design & implementation

Significant risks

Completeness of Accrued Expenditure

Risk identified	<p>Under UK auditing standards, there is a presumed risk of incorrect revenue recognition due to fraud. In line with previous years, we have rebutted this risk, and instead believe that the fraud risk lies with the completeness of expenditure.</p> <p>Given that the Authority is in an under spend position, there is a fraud risk associated with the over recording of expenditure near the period end in order for the Authority to reduce the reported under spend position.</p> <p>There is a risk that the Authority may materially misstate expenditure through manipulation of the accruals balance, including year-end transactions, in an attempt to move expenditure between years to report a more favourable year end position. The Authority does not have material provisions balances and based upon discussions to date we do not consider the completeness of provisions to fall within the scope of this risk.</p> <p>We note that our accrued expenditure risk has evolved since we issued our planning report to the committee. As documented below, we have also performed focussed testing in relation to the accuracy of accruals to a significant risk level.</p>
Deloitte response and challenge	<p>Our work in this area included the following:</p> <ul style="list-style-type: none">• We obtained an understanding of the design and implementation of the key controls in place in relation to recording of accruals including year-end creditor transactions;• We performed focused testing in relation to the completeness of expenditure by examining the application of cut off primarily through the focussed testing of accruals balance;• We performed focussed testing in relation to the accuracy of accrued expenditure; and• We reviewed and challenged the assumptions made in relation to year-end estimates and judgements to assess completeness of recorded expenditure.
Conclusion	<p>Our work on this significant risk area is undergoing the final stages of internal quality review. From our work performed to date, we have raised two control findings in relation to the ineffective review of GRNs at year end and the lack of support available to evidence the review and approval of manual accruals. See page 11 for documentation of this finding. We have no other matters to report to you at this stage.</p>

Significant risks (continued)

Valuation of property assets

Risk identified

The Authority held £44.8m of property assets (land and buildings) at 31 March 2021. A full revaluation is undertaken in 2021/22. The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The assessing of value of a matter of significant professional judgment and, whilst the Authority seek support from appropriately qualified external advisors the accuracy of the valuation is contingent on both the reasonableness of the assumptions used by the valuer and also the completeness and accuracy of the data provided to the valuer which they will then rely upon in the forming of their opinion of value.

Deloitte response and challenge

We have completed the following procedures:

- We examined the terms of engagement of the valuer, the instructions issued and the management controls within the Authority concerning the receipt, review and acceptance of the report;
- We tested the design and implementation of key controls in place around the valuations process;
- We tested a sample of floor areas used in the valuation;
- We used our valuation specialists, Deloitte Real Assets Advisory, to support our review and challenge of the appropriateness of the assumptions used in the year-end valuation of the Authority's Land and Buildings; and
- We tested a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts.

Conclusion

As noted on page 3, we are still resolving some outstanding queries in relation to our Property Valuations work. From our work performed to date, we have raised one control finding in relation to our Property Valuations work, and two findings regarding Property, Plant and Equipment. We have also noted three control findings raised by our Valuation specialists. Further details regarding these control findings can be found on pages 11 to 13.

Significant risks (continued)

Management override of controls

Risk identified In accordance with ISA 240 (UK) management override is a presumed significant risk for all audit engagements. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Authority's controls for specific transactions.

The key judgments in the financial statements are those which we have selected to be the significant audit risks: completeness of expenditure and valuation of the Authority's estate. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements. Whilst not noted as a significant risk, the valuation of pensions is also a key judgement.

Deloitte response and challenge In considering the risk of management override, we performed the following audit procedures that directly address this risk:

- We tested the design and implementation of key controls in place around journal entries and management judgements;
- We risk assessed journals and selected items for detailed testing. The journal entries were selected using computer-assisted profiling based on areas we considered to be of increased interest;
- We tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting;
- We reviewed accounting judgements for biases that could result in material misstatements due to fraud; and
- We obtained an understanding of the business rationale of significant transactions that we became aware of that are outside of the normal course of business for the Authority, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

Conclusions Our work on this significant risk area is undergoing the final stages of internal quality review. From our work performed to date, we have raised one control finding in relation to the ineffective implementation of journal review controls. See page 11 for documentation of this finding. We have no other matters to report to you at this stage.

Value for money

Our work is on-going and will be reported in our Auditor's Annual Report

Value for Money requirements

We are required to consider the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03 ('AGN03'), we are required to:

- Perform work to understand the Authority's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria (financial sustainability, governance, and improving economy, efficiency and effectiveness);
 - Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
 - If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
 - Issue a narrative commentary in the Auditor's Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to Value for Money arrangements, which might include emerging risks or issues arising; and
 - Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.
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Status of our work

Our Value for Money work will be reported in full in our Auditor's Annual Report which is to be reported within a three month timeframe from the date of signing the financial statements. However under AGN03 we are required to undertake sufficient work to conclude that there are no matters which could have a material bearing upon our audit prior to signing the financial statements opinion. This work is in the early stages of completion and must be substantially completed before the audit opinion can be signed.

Your control environment and findings

Control deficiencies and areas for management focus

Documented below are the control deficiencies and audit findings identified from our work performed to date.

Observation	Description	Deloitte recommendation
Ineffective review of GRNs at year end	As part of our design and implementation work on controls over year end accruals, we noted that an ineffective review of the GRN listing led to an amount of £23k being recognised in the incorrect period.	It is recommended that a thorough review of the GRN listing takes place at year end.
Lack of documentation supporting the review of manual accruals	As part of our design and implementation work on controls over year end accruals, we noted that there is a lack of supporting documentation available relating to the review and approval of manual accruals.	It is recommended that during the process of reviewing and approving manual accruals, documentation is kept that evidences this process taking place.
Lack of documentation regarding the review of the valuation report	As part of our design and implementation work on controls over year end Property Valuations, we noted that there is a lack of supporting documentation available to evidence the review and challenge by management of the Valuation report provided by Brunton Knowles.	It is recommended that management document the process of reviewing and challenging the valuation report provided by Brunton Knowles.
Ineffective implementation of journal review controls	As part of our design and implementation work on controls over management override, we have identified instances of the undermining of the journal review controls. These specifically relate to recoding and corrections where individuals have told members of staff what posting to make and have then reviewed it themselves.	It is recommended that where a recoding or correction journal is posted, this is then reviewed and approved by a separate individual to the original reviewer.

Your control environment and findings (continued)

Control deficiencies and areas for management focus

Observation	Description	Deloitte recommendation
Review of related party transactions	Management does not review related party transactions throughout the year. Transactions are only reviewed as part of the year end exercise. There is risk that transaction occurred in the year may not have been flagged as inappropriate related party transaction until year end.	It is recommended that management perform a review of related party transactions throughout the financial year.
Incorrect capitalisation of retention payments	As part of our PPE additions testing, we have identified the incorrect capitalisation of retention payments. The total amount of retention payments capitalised is £77k, which is below our reporting threshold.	It is recommended that management review their accounting treatment of retention payments to ensure retention payments are not being capitalised as part of the assets.
Nil net book value items being removed from the fixed asset register when still in use	As part of our PPE work, we have identified that assets are being removed from the fixed asset register when they have a net book value of nil, even if they are still in use.	It is recommended that assets are not removed from the fixed asset register until disposed of.
Floor measurements	Management have not obtained the floor measurement for Barnsley Fire Station, Maltby Fire Station and TDC RFTB (Fire House)	It is recommended that management obtain the floor measurements for these three areas for the 2022/23 audit.

Your control environment and findings (continued)

Control deficiencies and areas for management focus

Observation	Description	Deloitte recommendation
<u>Findings raised by Deloitte Valuation Specialists:</u>		
DRAA insight 1 – Build costs	We note Barnsley Fire Station is a new build fire station completed after 1 April 2021. We understand the completed costs for building the fire station have not been provided to the valuer.	We recommend, for all newly built assets, a breakdown of the actual build costs is provided in order for the valuer to compare with BCIS.
DRAA Insight 2 - Sheffield Office Head Quarters	We note that no internal floor areas were provided to the valuer for the Sheffield Office Head Quarters.	It is recommended that for future valuations the client provides the valuers with Net Internal Floor areas of the Sheffield Office Head Quarters, or if these are not available, that they instruct the valuer to undertake a measurement of the property in line with RICS requirements.
DRAA Insight 3 - Land Evidence	The evidence provided by the valuer for commercial land reflects a number of sales from 2020 in the local vicinity. We highlight that we would typically expect the valuer to provide more current evidence	Whilst we conclude that the land values applied within the DRC valuations are still within an expected tolerance, we recommend more recent evidence is obtained by the valuer for future valuations.

Our audit report

The form and content of our report

Here we discuss how the results of the audit impact on our audit report. An overview of our financial statement audit work will be included in our Auditor's Annual Report.



Our opinion on the financial statements

Based on the status of our work, our opinion on the financial statements is expected to be unmodified.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Value for Money reporting by exception

Our opinion will note that our Value for Money work is ongoing and will be reported in our Auditor's Annual Report.



Irregularities and fraud

We will explain the extent to which we considered the audit to be capable of detecting irregularities, including fraud.

In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations. We will discuss the areas identified where fraud may occur and any identified key audit matters relating to fraud.

Recent changes to ISAs (UK) mean this requirement will apply to **all** entities for periods commencing on or after 15 December 2019

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit and Governance Committee and the Authority discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in the audit plan.

Use of this report

This report has been prepared for the Authority, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit and Governance Committee.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Newcastle upon Tyne | 15 January 2024

Appendices



Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK).

	Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year retained earnings £m	Debit/ (credit) OCI/Equity £m
Misstatements identified in current year				
NNDR creditors	[1]	0.17		
NNDR provisions	[1]	(0.17)		

[1] Through our testing of the collection fund debtors and creditors, we have identified a transposition error made by management in relation to the provision and creditors balance for Doncaster MBC. This resulted in a net error of understatement of provision of £169,071 and an overstatement of creditors of £169,071

Audit adjustments (continued)

Disclosures

Disclosure misstatements

- [1] GRNI control account is included within trade creditors when it should be classified as accruals. Total value £482k.
- [2] The PWLB fair value disclosure is not CIPFA Code compliant and is the fair value of the PWLB at a reborrowing rate rather than a market rate.
- [3] Nil net book value assets still in use. We have identified that management remove nil NBV items from the fixed asset register regardless of whether they are in use.

Our other responsibilities explained

Fraud responsibilities and representations



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the Audit and Governance Committee to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the Authority.

We have also asked the Audit and Governance Committee to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified the risk of fraud in the completeness of expenditure and management override of controls as a significant audit risks.

During course of our audit, we have had discussions with management and those charged with governance, and no significant issues were raised that would require a change to our audit plan.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

Concerns:

No significant concerns have been identified from our audit procedures.



Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Authority and will reconfirm our independence and objectivity to the Audit and Governance Committee for the year ending 31 March 2022 in our final report to the Audit and Governance Committee.

Fees

Details of proposed fees for audit and non-audit services performed for the period have been presented separately on the following page.

Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships

We have no other relationships with the Authority, its officers and senior management and its affiliates, and have not supplied any services to other known connected parties.

Independence and fees (continued)

The professional fees expected to be charged by Deloitte in the period from 1 April 2021 to 31 March 2022 are as follows:



	2021/22 Audit £
Financial statement audit, including Whole of Government Accounts [1]	26,523
Procedures in respect of Value for Money assessment	6,849
Additional fees*	-
Total audit	33,372
Total fees	33,372

[1] In line with recent PSAA correspondence that scale fees should be negotiated by individual s151 officers based on the individual circumstances of each body, we are discussing with the Authority the current level of fee.

Our approach to quality

FRC Audit Quality Inspection and Supervision report

We are proud of our people's commitment to delivering high quality audits and we continue to have an uncompromising focus on audit quality. Audit quality is and will remain our number one priority and is the foundation of our recruitment, learning and development, promotion and reward structures.

In July 2022 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2021/22 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

In that context, we are pleased that both the overall and FTSE 350 inspection results for our audits selected by the FRC as part of the 2021/22 inspection cycle show an improvement. 82% of all inspections in the current cycle were assessed as good or needing limited improvement, compared to 79% last year. Of the FTSE 350 audits reviewed, 91% achieved this standard (2020/21: 73%). This reflects our ongoing focus on audit quality, and we will maintain our emphasis on continuous improvement as we seek to further enhance quality.

We welcome the breadth and depth of good practice points identified by the FRC particularly those in respect of the effective challenge of management and group audit oversight, where the FRC also reports findings.

We are also pleased that previous recurring findings relating to goodwill impairment and revenue were not identified as key finding in the current FRC inspection cycle, reflecting the positive impact of actions taken in previous years. We nevertheless remain committed to sustained focus and investment in these areas and more broadly to achieve consistently high quality audits.

All the AQR public reports are available on its website:

<https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

The AQR's 2021/22 Audit Quality Inspection and Supervision Report on Deloitte LLP

"In the 2021/22 public report, we concluded that the firm had made progress on actions to address our previous findings and made improvements in relation to its audit execution and firm-wide procedures. The firm has continued to show improvement, with an increase in the number of audits we assessed as requiring no more than limited improvements to 82% compared with 79% in the previous year and 80% on average over the past five years. It is also encouraging that none of the audits we inspected were found to require significant improvements.

The area which contributed most to the audits requiring improvement was the audit of estimates of certain provisions. There were also key findings in relation to group audits, the review and challenge by the Engagement Quality Control Review (EQCR) partner and the application of the FRC Ethical Standard."



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