



Report to the Audit and Governance Committee for the year  
ending 31 March 2020

November 2020

# Contents

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## 01 Our report

Introduction	3
Responsibilities of the Audit and Governance Committee	5
Your control environment	6
Our audit explained	7
Significant risks	11
Other areas	16
Conclusion on arrangements to secure economy, efficiency and effectiveness from the Authority's use of resources	17
Financial Sustainability	18
Your control environment and findings	20
Our audit report	21
Your annual report	22
Maintaining audit quality	23
Purpose of our report and responsibility statement	24

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## 02 Appendices

Audit adjustments	26
Fraud responsibilities and representations	29
Independence and fees	30
Our approach to quality	31

# Introduction

## The key messages in this report

I have pleasure in presenting our update report to the Audit and Governance Committee (the Committee) of South Yorkshire Fire and Rescue Authority (the Authority) for the 2019/20 audit. The scope of our audit was set out within our planning report presented to the committee in March 2020.

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.

### Status of the audit

Our audit is nearly complete at the date of issue of this report with the following key matters still outstanding:

- receipt and evaluation of information from South Yorkshire Fund auditors;
- completion of internal quality assurance procedures;
- receipt of signed management representation letter; and
- our review of events since 31 March 2020 through to signing.

We have included a section in this report providing observations arising from the work we have so far carried out on the areas of significant risk as reported to you in our audit planning report.

We will provide an oral update on the above matters at the meeting.

### Conclusions from our testing

- We have not identified any significant uncorrected audit adjustments or disclosure deficiencies. We provided to management our proposed changes to the accounts, and have reviewed the changes made. As our audit work is ongoing, further misstatements may be identified through the completion of our remaining work. We will provide an oral update regarding any such matters in the meeting.
- We have summarised our audit adjustments on pages 26 - 28.
- Based on the current status of our audit work, we envisage issuing an unmodified audit opinion, with no reference to any matters in respect of the Authority's arrangements to secure economy, efficiency and effectiveness in the use of resources, or the Annual Governance Statement.
- We have considered the impact of the COVID-19 pandemic on our work – we include details on pages 9 to 11. Further details are included in our work on the valuation, where management's expert – Align Property Services- identified a material valuation uncertainty. This is common to all valuations completed as at 31 March 2020 across the sector. This wording is reflected in our draft auditor's report. We did not identify any new financial statement or value for money significant risks as a result of the impact of the pandemic.
- We have reviewed the internal audit reports relating to the financial year, and have not placed any reliance on their work.
- We have raised some control recommendations on page 20.

# Introduction

## The key messages in this report (continued)

### Financial Sustainability and Value for Money

- In the CIES, the Authority reported an accounting surplus of £48.221m for the year (2018/19: deficit £69.185m) which is mainly due to an actuarial gain on the pension liability of £62.072m (2018/19: loss £22.999m). At the provision of service line the Council showed better performance with a net surplus of £13.181m (2018/19: £43.264m). At year end the Authority had usable reserves of £20.067m (31 March 2019: £23.206m ) and unusable reserves of (£793.554m) (31 March 2019: (£884.914m)).
- We did not identify any significant risks related to Value for Money and we do not anticipate reporting any matters within our audit report in respect of the Authority's arrangements for securing the economy, efficiency and effectiveness of the use of resources.

### Narrative Report & Annual Governance Statement

- We have reviewed the Authority's Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work.
- At the date of this report, we have no significant matters to raise with you in respect of the Narrative Report, and understand our proposed changes will be made by management. We also have no significant matters in respect of the Annual Governance Statement.

### Duties as public auditor

- We did not receive any formal queries or objections from local electors this year.
- We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.

### Whole of Government Accounts

- The WGA guidance has been published. The Authority remains below the threshold for detailed WGA reporting.

Paul Hewitson  
Audit Director

# Responsibilities of the Audit and Governance Committee

## Helping you fulfil your responsibilities

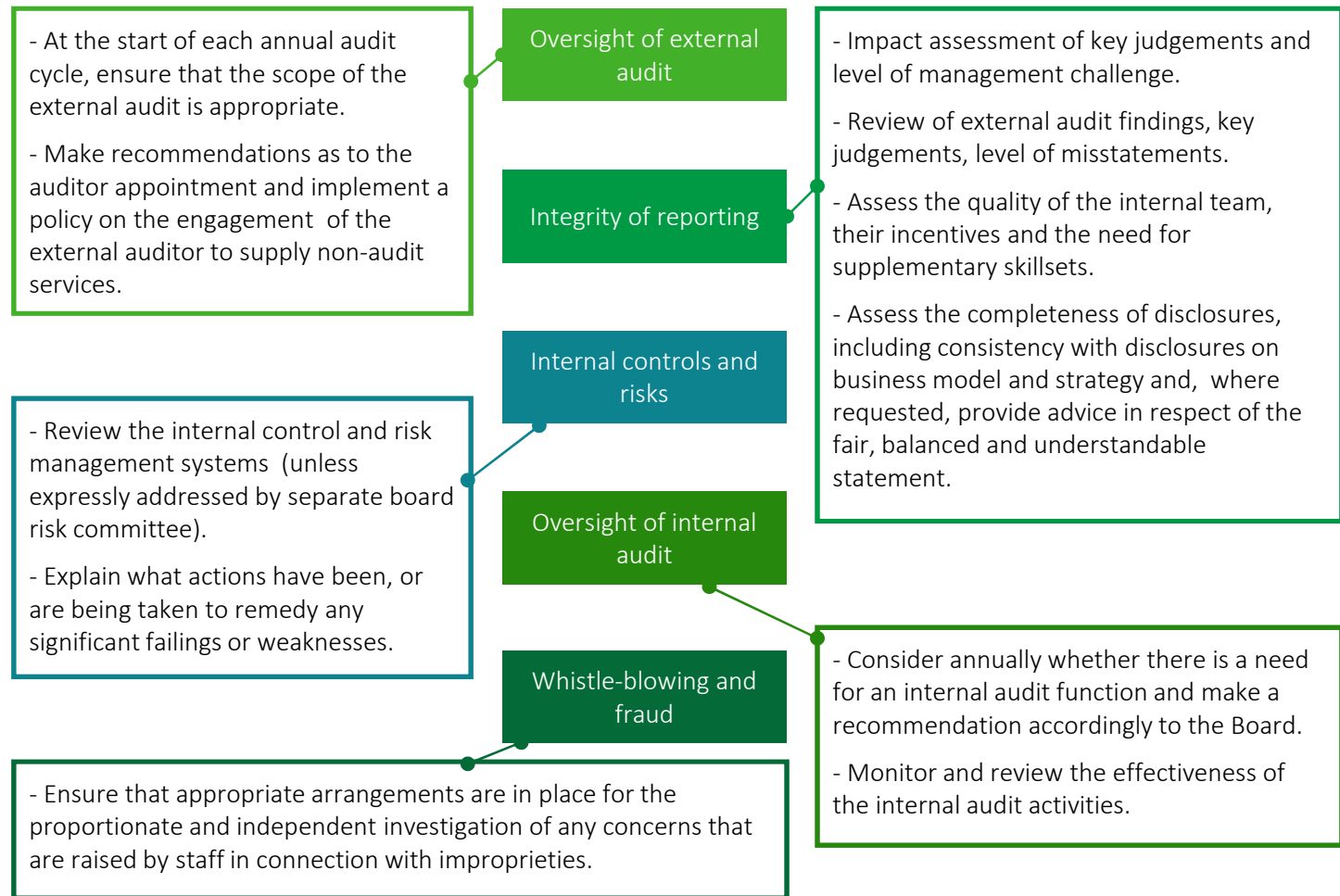
Why do we interact with the Audit and Governance Committee?

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

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.



# Your control environment

## What we consider when we plan the audit

We expect management and those charged with governance to recognise the importance of a strong control environment and take proactive steps to deal with deficiencies identified on a timely basis.

### Responsibilities of management

Auditing standards require us to only accept or continue with an audit engagement when the preconditions for an audit are present. These preconditions include obtaining the agreement of management and those charged with governance that they acknowledge and understand their responsibilities for, amongst other things, internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Responsibilities of the Audit and Governance committee

As explained further in the Responsibilities of the Audit and Governance Committee slide, on page 5, the Audit and Governance Committee is responsible for:

- Reviewing the internal control and risk management systems (unless expressly addressed by separate board risk committee).
- Explaining what actions have been, or are being taken to remedy any significant failings or weaknesses.

As stakeholders tell us that they wish to understand how external audit challenges and responds to the quality of an entity's control environment, we are seeking to enhance how we plan and report on the results of the audit in response. It is intended that going forward we will look to place an increased focus on how the control environment impacts the audit, from our initial risk assessment, to our testing approach and how we report on misstatements and control deficiencies.

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#### Reliance on controls



In future, we will seek to explore the potential to rely on the most important controls, particularly IT controls, that are relevant to critical business processes. In accordance with forthcoming revisions to ISAs, we will assess inherent risk and control risk associated with accounting estimates, and seek to test controls relevant to key estimates.

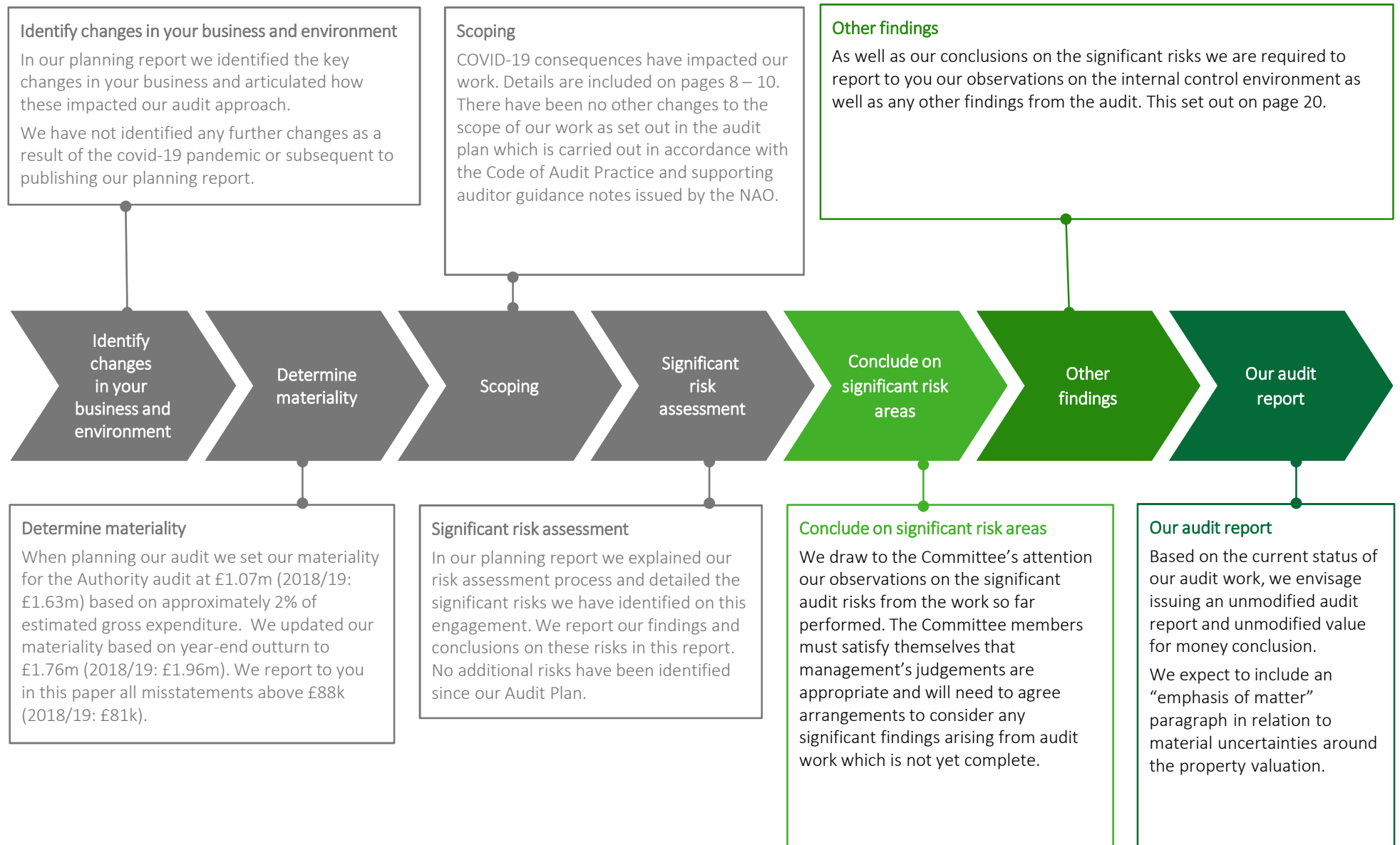
#### Performance materiality



We set performance materiality as a percentage of materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed materiality. We determine performance materiality, with reference to factors such as the quality of the control environment and the historical error rate.

# Our audit explained

We tailor our audit to your organisation



## COVID-19 pandemic and its impact on our audit.

### Requirements

CIPFA has issued guidance highlighting the importance of considering the impact of COVID-19 in preparation of the 2019/20 financial statements, including communicating risks and governance impacts in narrative reporting. This is consistent with the Financial Reporting Council's guidance to organisations on the importance of communicating the impact of COVID-19 and related uncertainties, including their impact on resilience and going concern assessments.

Entity-specific explanations of the current and expected effects of COVID-19 and the Authority's plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation.

As well as the effects upon reserves, financial performance and financial position, examples of areas highlighted by CIPFA include the impact on service provision, changes to the workforce and how they are deployed, impacts upon the supply chain, cash flow management, and plans for recovery. Risks highlighted include those relating to subsidiaries and investments, capital programmes, and resilience of the community including partner organisations and charities.

### Actions

A thorough assessment of the current and potential future effects of the COVID-19 pandemic is required including:

- A detailed analysis across the Authority's operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position and reserves;
- The economic scenario or scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios);
- Any material uncertainties relating to the Authority's financial position, the financial sustainability of the Authority, and the potential requirement for a section 114 notice; and
- The effect of events after the reporting date, including the nature of non-adjusting events and an estimate of their financial effect, where possible.

Impact on the Authority	Impact on annual report and financial statements	Impact on our audit
<p>We have considered the key impacts on the business such as:</p> <ul style="list-style-type: none"> <li>• Interruptions to service provision</li> <li>• Supply chain disruptions</li> <li>• Unavailability of personnel</li> <li>• Reductions in income</li> <li>• The closure of facilities and premises</li> </ul>	<p>We have considered the impact of the outbreak on the annual report and financial statements, discussed further on the next slide including:</p> <ul style="list-style-type: none"> <li>• Principal risk disclosures</li> <li>• Impact on property, plant and equipment</li> <li>• Valuation of commercial or investment properties</li> <li>• Impact on pension fund investment measurement and impairment</li> <li>• Financial sustainability assessment</li> <li>• Events after the reporting period and relevant disclosures</li> <li>• Bad debts provision policy</li> <li>• Narrative reporting</li> <li>• Impairment of non-current assets</li> <li>• Allowance for expected credit losses</li> </ul>	<p>We have considered the impact on the audit including:</p> <ul style="list-style-type: none"> <li>• Resource planning</li> <li>• Timetable of the audit</li> <li>• Impact on our risk assessment</li> <li>• Logistics including meetings with entity personnel</li> </ul>



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## COVID-19 pandemic and its impact on our audit (continued)

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### Potential Impact on annual report and financial statements

### Audit response

#### Impact on property, plant and equipment

The Royal Institute of Chartered Surveyors has issued a practice alert, as a result of which valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. This has impacted the Authority and has required specific disclosure in the financial statements.

The Authority has considered its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations the Authority considered with their valuers the impact that COVID-19 has had on current value. The Authority also considered whether there are any indications of impairment of assets requiring adjustment at 31 March 2020.

The Authority has disclosed the material uncertainty in their updated accounts and this leads to an Emphasis of Matter in our audit opinion.

#### Impact on pension fund investment measurement

As a result of the COVID-19 pandemic pension fund investments have been subject to volatility.

We have engaged with the South Yorkshire Pension Fund auditor to not only gather information for year-end measurements but to also understand any estimation techniques and any changes to those techniques that may be needed to measure the financial instruments. Where such volatility exists it may mean that the inputs used in the fair value measurement may change and may require a change of measurement technique, and consideration of the level of uncertainty in valuations where there is significantly more estimation.

At the date of this report, we have not concluded this matter with the Pension Fund auditor.

#### Expected credit losses

The Authority has considered the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.

No issues in relation to this have arisen from our audit work.

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## COVID-19 pandemic and its impact on our audit (continued)

	Potential Impact on annual report and financial statements	Audit response
COVID-19 related income received pre year end	<ul style="list-style-type: none"> <li>There was one main receipt of income related to COVID-19 that was received pre 31 March 2020: <ul style="list-style-type: none"> <li><b>Covid-19 LA Support grant.</b> This was the first tranche of £1.6bn passed out to Local Authorities by MCHLG on March 27 2020. South Yorkshire Fire and Rescue received £276k. This grant was unringfenced and without conditions and therefore should be recognised in income with any unspent amounts carried in reserves.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>We note that after discussion and reference to guidance these have been treated correctly in the statement of accounts.</li> <li>The remaining COVID related income receipts received after the year end will be considered as part of the 2020/21 audit.</li> </ul>
Narrative and other reporting issues	<p>The following areas need to be considered by local authorities as having being impacted on by the COVID-19 pandemic.</p> <ul style="list-style-type: none"> <li>Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability.</li> <li>Reporting judgements and estimation uncertainty, the Authority will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities</li> </ul>	<p>We note that the narrative report adequately discloses matters related to COVID-19, including risks, potential impacts and other issues. The report is compliant with the guidance in this area.</p>

# Significant risks Dashboard

Risk	Fraud risk	Planned approach to controls	Controls conclusion	Consistency of judgements with Deloitte's expectations	Slide no.
Property Valuation			Satisfactory		12
Completeness of expenditure			Satisfactory		14
Management override of controls			Satisfactory		15

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

### Controls approach adopted

- Assess design & implementation
- Test operating effectiveness of relevant controls
- Involvement of IT specialists

# Significant risks (continued)

## Valuation of property assets

### Risk identified

The Authority held £49.8m of property assets (land and buildings) at 31 March 2018 which decreased to £45.6m as at 31 March 2019. The decrease was mainly due to net downward revaluation movements of £2.9m.

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 Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. There is therefore a risk that the carrying value of assets not included in the authority's revaluation process in the current year materially differ from the year end fair value. A full revaluation was undertaken in 2018/19 and we understand that management have completed a full desktop valuation as at 1 April 2019.

### Deloitte response

- 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 used our valuation specialists, Deloitte Real Estate, to support our review and challenge the appropriateness of the assumptions used in the year-end valuation of the Authority's Land and Buildings and are awaiting their final report to close our consultation;
- We tested a sample of revalued assets and re-performed the calculation assessing whether the movement has been recorded through the correct line of the accounts; and
- We had expected to review a sample of assets that were not revalued, however, management revalued all assets in the current year. We have considered the accuracy of the valuation as at 31 March 2020.

### Deloitte view

We note an adjustment in relation to the update to the valuation from 1 April 2019 to 31 March 2020. Details of this are included on page 26. Overall, we have concluded that the net book value of property assets is not materially misstated. The Authority's valuation assumptions are generally reasonable.

# Significant risks (continued)

## Valuation of property assets – Material Uncertainty due to COVID-19

### Material Uncertainty due to COVID-19

The Authority's valuer has included disclosures in relation to COVID-19 in their report including the extracts below:

*"The outbreak of the COVID-19, declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. The current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Our valuation is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of these properties under frequent review."*

This is a common feature of valuation reports prepared to 31 March 2020.

### Impact on Statement of Accounts

The Authority is required to disclose the existence of this material uncertainty in the Statement of Accounts. We communicated this to management this has been incorporated as part of our changes to the accounts.

### Impact on Audit Opinion

An "emphasis of matter" is required to be included in our audit opinion to draw attention to management's disclosure:

*"We draw attention to note x, which describes the effects of the uncertainties created by the coronavirus (COVID-19) pandemic on the valuation of the Authority's property portfolio. As noted by the Authority's external valuer, the pandemic has caused extensive disruptions to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the valuation of the property portfolio at the balance sheet date. Our opinion is not modified in respect of this matter."*

### Deloitte view

We made a recommendation to management as part of our comments on the financial statements regarding their disclosure on COVID-19 which has been amended within the updated accounts.

# Significant risks (continued)

## Completeness of expenditure

### Risk identified

Under UK auditing standards, there is a presumed risk of revenue recognition due to fraud. In line with last year, we have rebutted this risk, and instead believe that the fraud risk lies with the completeness of expenditure.

Given the Authority's current under spend budget position, and the pressures across the whole of the public sector, there is an inherent fraud risk associated with the under recording of expenditure in order for the Authority to report a more favourable year-end position.

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.

### Deloitte response

- 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 post year end payments and invoices to ensure completeness of both accruals and expenditure balance;
- We undertook further analytical procedures aimed at identifying distortion to the pattern of expenditure recorded; and
- We reviewed and challenged the assumptions made in relation to year-end estimates and judgements to assess completeness of recorded expenditure.

### Deloitte view

Our work in this area has been completed satisfactorily with no issues noted.

# 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 judgements 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 assets. These are inherently the areas in which management has the potential to use their judgement to influence the financial statements. Whilst not noted as a significant risk, the valuation of pensions is also a key judgement due to the nature of the balance and judgements involved.

### Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- The Authority's results throughout the year did project both positive and negative divergences from budgets in operational areas. This was closely monitored and whilst some areas projected overspends, the underlying reasons were understood.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

### Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

### Journals

We have performed design and implementation testing of the controls in place for journal entries and management judgements.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

### Accounting estimates

We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall the areas more subject to estimation in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

### Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed.

Internal audit identified that journals could be both posted and approved by the same person, however, we understand the system has been adjusted for segregation of duties for financial year 20/21.

# Other areas

## Valuation of pension liability

### Issue identified

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The net pension liability is a material element of the Authority's balance sheet, with a liability value of £819,342k at 31 March 2020. The valuation of the liability relies on a number of assumptions, including actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. Furthermore there are financial and demographic assumptions used in the calculation of the Authority's valuation – e.g. the discount rate, inflation rates, mortality rates. These assumptions should reflect the profile of the Authority's employees, and should be based on appropriate data.

In July 2020, the Government announced a consultation with members on the remediation of the McCloud case. A key aspect of the proposal is that the remediation only applies to members of the Pension Fund as at 31 March 2012 who were still in service at 1 April 2015. The Authority has obtained revised reports and a negative past service cost of £5.053m has been recognised in the 2019/20 accounts. This has been corrected within the financial statements as set out on page 27.

In addition, a further legal case ("Goodwin") has been identified which is expected to increase the liability at year end. This also relates to a discrimination case and the Chief Secretary to the Treasury issued a statement on 20 July 2020 that in light of the Goodwin case, amendments would have been made to public service pension schemes to address the issues identified. The Goodwin case is not applicable to the Firefighters Scheme as the scheme already includes these protective arrangements. The actuary has detailed that the estimated impact could be up to 0.1% of the Local Government pension schemes defined benefit obligation, equivalent to £67k, which is immaterial and therefore not included as a misstatement in our report.

### Conclusion

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The Authority's pension liability is materially accurate and has been updated to reflect the amendments of the McCloud remediation.



# Conclusion on arrangements to secure economy, efficiency and effectiveness from the Authority's use of resources

## Background

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work. We note that the NAO guidance indicates a low likelihood that COVID-19 forms a risk area impacting the assessment of arrangements for 2019/20. Rather this will form part of the risk assessment and evaluation for 2020/21. The response to COVID-19 is described as an "emerging risk" in this guidance (rather than a significant risk) unless clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of COVID-19 during the 2019/20 financial year.

## Our risk assessment

As part of our planning procedures we identified an area of focus in relation to the Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) report published in December 2019.

As part of our work we:

- Reviewed management's action plan in respect of the findings; and
- Reviewed the medium term financial plan / IRMP and the plans for reducing the budgeted deficit.

We have nothing to report in respect of this.

We did not identify any other areas of risk as part of our risk assessment or review of post year-end events.

## Deloitte view

We envisage issuing an unqualified "value for money conclusion".

The expected form of our conclusion is as follows:

*On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in April 2020 we are satisfied that, in all significant respects, South Yorkshire Fire and Rescue put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.*

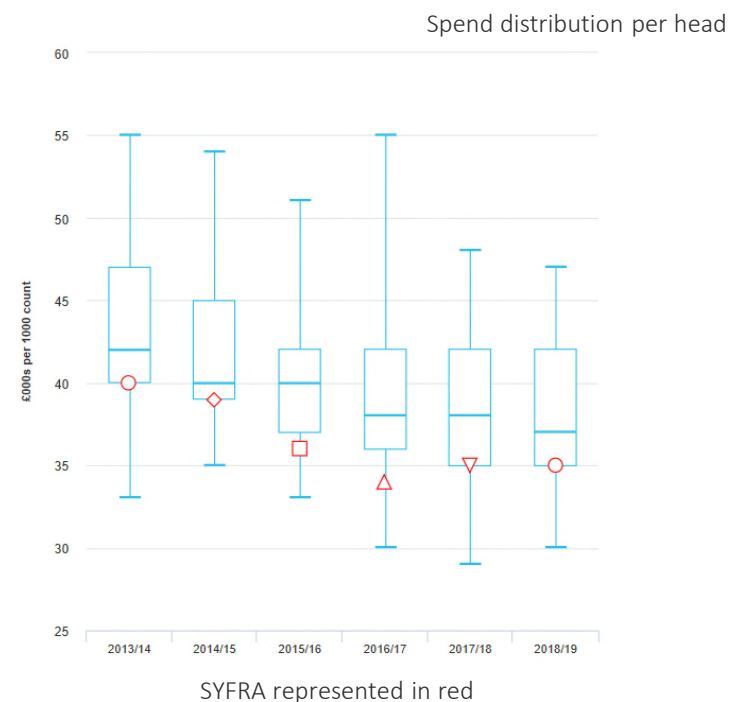
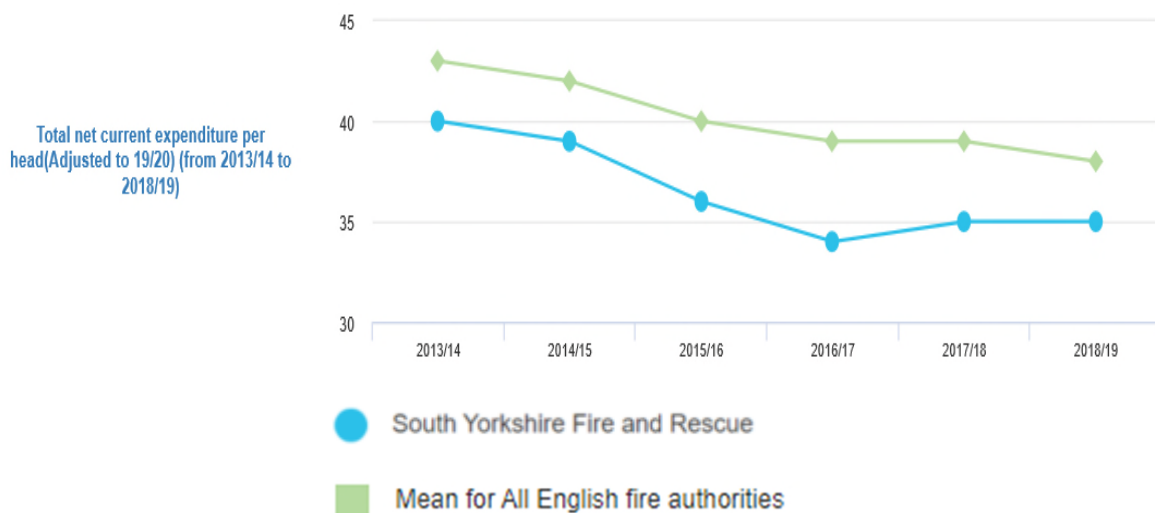
# Financial sustainability

## COVID impact on 2020/21

Due to the timing of the COVID 19 pandemic there was limited impact on the Authority's income and expenditure for the financial year currently under audit. However, as the committee will be well aware it is having a significant impact on the Authority's operations and performance in 2020/21. Based on the Ministry of Housing, Communities & Local Government ("MHCLG") *Local authority COVID-19 financial management information reporting data*, during August Local Authorities were forecasting to incur additional COVID-19 related expenditure of £5.24bn in 2020/21 and to suffer a loss in income of £5.99bn over the same period. The three main components of lost income were: Business rates (£1.61bn); Council Tax (£1.56bn); and Sales, fees and charges (£2.01bn). To date the government has allocated £3.7bn of emergency funding to local authorities but this still leaves a significant gap which will present a challenge for the sector and will likely be an area which we need to focus upon in our value for money work in 2020/21.

### South Yorkshire Fire and Rescue Authority's position

At the start of the 2019/20 year, when compared to the mean for all English Fire Authorities, the Authority compares favourably in the Value for Money profiles, as set out below.



During the year to 31 March 2020 the Authority used £3.139m from reserves. For 2020/21 the Authority's plan had been for a £0.471m contribution to reserves. We are aware that the Authority has considered various updates during the year to date, with the most recent information being presented for the November Authority meeting showing an updated forecast of a contribution to reserves of £2.610m.

# Financial sustainability (continued)

## COVID impact on 2020/21

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### Impact on 2020/21 audit

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Although the Authority is in a relatively strong reserves position, Covid-19 nonetheless presents a significant financial challenge in 2020/21 and beyond. The Authority's response will be an area we focus upon in our value for money work in 2020/21 and which we would expect to comment upon in our narrative commentary in the Auditor's Annual Report.

In the current year due to the Authority's strong financial position we have not identified a significant value for money risk in relation to financial sustainability and do not expect the forecast impacts to have a significant impact on the Authority's position.

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# Your control environment and findings

## Control insights and areas for management focus

Area of observation	Deloitte recommendation	Management response and remediation plan
Bank reconciliation	As part of our cash testing we noted a £1.3m error in the cash balance, see page 24. As such, we recommend that management should review the process for bank reconciliations and its associated review and tracking of grant income received in order to ensure that the figures are accurately presented within the financial statements.	We are putting in place extra reviews at year-end to prevent this from happening again, we are reviewing the bank reconciliation process and are reviewing the way that grant income is monitored as a whole.
Disposal of property, plant and equipment	Based on our testing of disposals of property, plant and equipment, we have noted that there are no disposal form in place to authorise disposals. All assets with a net book value of £NIL are disposed off without formal documentation / approval.  We recommend that disposal form should be put in place to ensure that only appropriate and authorised assets are disposed.	Noted, we are implementing this post year-end.

# Our audit report

## Matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



### **Our opinion on the financial statements**

Based on our work completed to date it is expected that our opinion on the financial statements will be unmodified.



### **Material uncertainty related to going concern**

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.



### **Emphasis of matter and other matter paragraphs**

We include details on the emphasis of matter paragraph in relation to property valuations on page 13 of this report.

There are no other 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.



### **Our value for money conclusion**

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

Our conclusion on the Authority's arrangements is unmodified.



### **Other reporting responsibilities**

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performed and to ensure that they are fair, balanced and reasonable.

We have reviewed the updated accounts and our conclusions in this area is satisfactory.

# Your annual report

We are required to report by exception on any issues identified in respect of the Annual Governance Statement.

	Requirement	Deloitte response
Narrative Report	<p>The Narrative Report is expected to address (as relevant to the Authority):</p> <ul style="list-style-type: none"> <li>- Organisational overview and external environment;</li> <li>- Governance;</li> <li>- Operational Model;</li> <li>- Risks and opportunities;</li> <li>- Strategy and resource allocation;</li> <li>- Performance;</li> <li>- Outlook; and</li> <li>- Basis of preparation</li> <li>- Future sustainability and risks to this posed by COVID-19.</li> </ul>	<p>We have assessed whether the information given in the Narrative Report meets the disclosure requirements set out in guidance, is misleading, or is inconsistent with other information from our audit.</p> <p>We note that management make good use of pictures and links throughout their narrative report.</p> <p>We have considered the sustainability narrative including the requirement to discuss and evaluate the impact of COVID-19 within this assessment. We have concluded satisfactorily on this matter.</p> <p>Our assessment of the impact of COVID-19 can be seen from pages 8 – 10.</p> <p>We have received an updated version of the accounts from the Authority and note that it complies with all the relevant requirements.</p>
Annual Governance Statement	<p>The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in guidance, is misleading, or is inconsistent with other information from our audit.</p>

# Maintaining audit quality

## Responding to challenges in the current audit market

This is a time of intense scrutiny for our profession with questions over the role of auditors, market choice and the provision of non-audit services by an audit firm. We welcome the debate and are engaging fully with all parties who have an interest in the current audit market reform initiatives, so that our profession, our people, our clients and most importantly, the public interest, are served to the highest standards of audit quality and independence.

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### The role of audit

- Public confidence in audit has weakened over recent years and the expectation gap has widened with differences between what an audit does and what people think it should do (largely in areas of internal controls, fraud, front half assurance and long term viability)
- Deloitte fully supports an independent review into the role of auditors
- The Government's Brydon Review will consider UK audit standards and how audits should evolve

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### Would it be better to have audit only firms?

- Deloitte believes that multidisciplinary firms have more knowledge, greater access to technology and a deeper talent pool. The specialist input from industry, valuation, controls, pensions, cyber, solvency, IT and tax services are critical to an effective audit.
- Our investment in audit innovation, training and technology is greater because of the multidisciplinary model

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### Is the current audit market uncompetitive?

- We recognise that the competition for large, complex clients is fierce, but we wholeheartedly support greater choice being available to stakeholders
- There are barriers to entry in the listed market that are significant including the required global reach, unlimited liability, and the high cost of tendering
- The audit profession has engaged with the Competition and Markets Authority with ideas on how to provide greater choice in the market, and responded to the CMA's suggested market remedies

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### Independence and conflicts from other services

- Legislation and the FRC's Ethical Standard restrict the services we may provide to audit clients
- Deloitte invests heavily in systems, processes and people to check for potential conflicts
- We have governance in place to assess any areas of potential conflict, including where required to protect the public interest
- Fees for non-audit services to audit clients have fallen since 2008 (17% to 7.3% of firm revenue)

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### Deloitte

- Deloitte and Audit Service Line leadership are happy to meet the Board and management of our clients with respect to this important debate. We reaffirm our commitment to quality, independence and upholding the public interest
  - Our Impact Report and Transparency Report are available on our website <https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html>
  - Our response to the latest AQR report is on slide 28.
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# 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 260 (UK) 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 Narrative Report.

### 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 Authority.

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.

### 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 our audit plan and again in this report.

This report has been prepared for the Audit and Governance Committee and 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.

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

for and on behalf of Deloitte LLP  
November 2020



# 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). Uncorrected misstatements decrease net assets by £0.430 million and increase unusable reserves by £0.442 million.

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) unusable reserves £m
<b>Misstatements identified in current year</b>				
Property valuation update	[1]		(0.442)	0.442
Business rates accounting	[2]		0.117 0.491 (0.608)	
<b>Aggregation of misstatements individually &lt; £88k</b>				
		(0.012)	0.012	0.000
<b>Total</b>		<b>(0.012)</b>	<b>(0.430)</b>	<b>0.442</b>

[1] Update to the valuation undertaken of land and buildings at 1 April 2019 to 31 March 2020.

[2] As part of the bank reconciliation, Deloitte noted that management had incorrectly analysed the business rates between debtors, creditors and provisions. As such the corrective entries are, debit debtors, debit creditors, credit provisions. This has no effect on the Authority's net worth.

# Audit adjustments (continued)

## Corrected misstatements

The following misstatements have been identified up to the date of this report which we understand have been corrected by management. We are awaiting an updated version of the financial statements to check these changes. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

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		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) reserves £m
Bank reconciliation	[1]		1.343 (1.067) (0.276)	
McCloud adjustment	[2]	(5.053)		5.053
<b>Total</b>		<b>(5.053)</b>	<b>0.000</b>	<b>5.053</b>

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[1] As part of the bank reconciliation, Deloitte noted that management had incorrectly adjusted for valid cash items received during FY 19/20. As such the corrective entries are, debit cash, credit grants received in advance and credit debtors. This has no effect on the Authority's net worth.

[2] This is the effect of the remedy impact on the prior year McCloud judgement. This has required the Authority to obtain revised pension assumptions to be run for the Local Government Pension Scheme (LGPS) and Firefighters Pension Scheme. This has affected all LGPS, Firefighters Schemes and a wide range of other public sector defined benefit pension schemes across the UK.

# Audit adjustments (continued)

## Disclosures

### Disclosure misstatements

The following uncorrected disclosure 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).

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
We raised some disclosure points for management to correct within the financial statements, which we understand have been amended within the latest version of the accounts.		

# Fraud responsibilities and representations

## Responsibilities explained



### 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 Authority 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 have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Authority.

We have also asked the Authority 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 property valuations, completeness of expenditure and management override of controls as key audit risks for your organisation.

During course of our audit, we have had discussions with management and those charged with governance including the Head of Internal Audit.

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

We have reviewed the paper prepared by management for the on the process for identifying, evaluating and managing the system of internal financial control.

### Concerns:

No significant concerns have been identified from our work.

# 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:

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## Independence confirmation

We confirm that we comply with FRC Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.

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## Fees

The audit fee for 2019/20, in line with the scale fee provided PSAA, is £26,523 (2018/19: £26,523). Owing to errors in the bank reconciliation and also the multiple versions of the data received for our journals testing we have incurred unforeseen costs being incurred. We will seek to agree a variation to the fees, in accordance with the terms of the PSAA contract, to recover these additional costs. There have also been certain additional costs as a result of COVID-19. We are still working through the full implications of these and will provide management with an estimate of these costs in due course.

No other non-audit fees have been charged by Deloitte in the period.

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## Non-audit services

In our opinion there are no inconsistencies between FRC's Ethical Standards for Auditors and the Authority'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.

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## Relationships

We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Authority, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

We are not aware of any relationships which are required to be disclosed.

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# Our approach to quality

## AQR team report and findings

Audit quality remains our number one priority and we have a relentless commitment to it. We continue to invest in and enhance our Audit Quality Monitoring and Measuring programme.

In July 2020 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 2019/20 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.

We are pleased with our results for the inspections of FTSE 350 entities achieving 90% assessed as good or needing limited improvement, which included some of our highest risk audits. Our objective is for 100% of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions.

We are also pleased to see the impact of our previous actions on prior year adjustments is reflected in the results of current year inspections with no findings in this areas. In addition the FRC identified good practice examples including in: risk assessment, group oversight, our comprehensive IFRS9 expected credit loss audit programme and our audit committee reporting.

Embedding a culture of challenge in our audit practice underpins the key pillars of our audit strategy. We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website.

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



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