



South Yorkshire Fire and Rescue Authority
Report to the Audit and Governance Committee on the
audit for the year ended 31 March 2019

Issued 19 July 2019 for the meeting on 22 July 2019

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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 final report to the Audit and Governance Committee (the Committee) of South Yorkshire Fire and Rescue Authority (the Authority) for the 2019 audit. The scope of our audit was set out within our planning report presented to the committee in March 2019. We extend our thanks to the Officers for facilitating the audit process, and note the timely receipt of financial statements and working papers.

Status of the audit

Our audit is currently underway and subject to completion of the following principal matters:

- review of the pension liability and disclosures for the impact of the McCloud judgement;
- receipt of information from South Yorkshire Pension Fund auditors;
- finalisation of testing of notes to the financial statements;
- receipt of 3rd party evidence in relation to cash and cash equivalents, borrowings and investments;
- finalisation of our specialists reports in relation to property valuation and pensions;
- resolution of cash flow testing;
- receipt and review of updated financial statements;
- completion of internal quality assurance procedures;
- Whole of Government Accounts Reporting;
- receipt of signed management representation letter; and
- our review of events since 31 March 2019 through to signing.

We will provide an oral update at the meeting.

Conclusions from our testing

- The key judgements in the audit process related to:
 - Property valuations; and
 - Completeness of expenditure.
- We have identified some audit adjustments and disclosure deficiencies, these are detailed on page 16.
- Based on the current status of our audit work, we envisage issuing an unqualified 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.

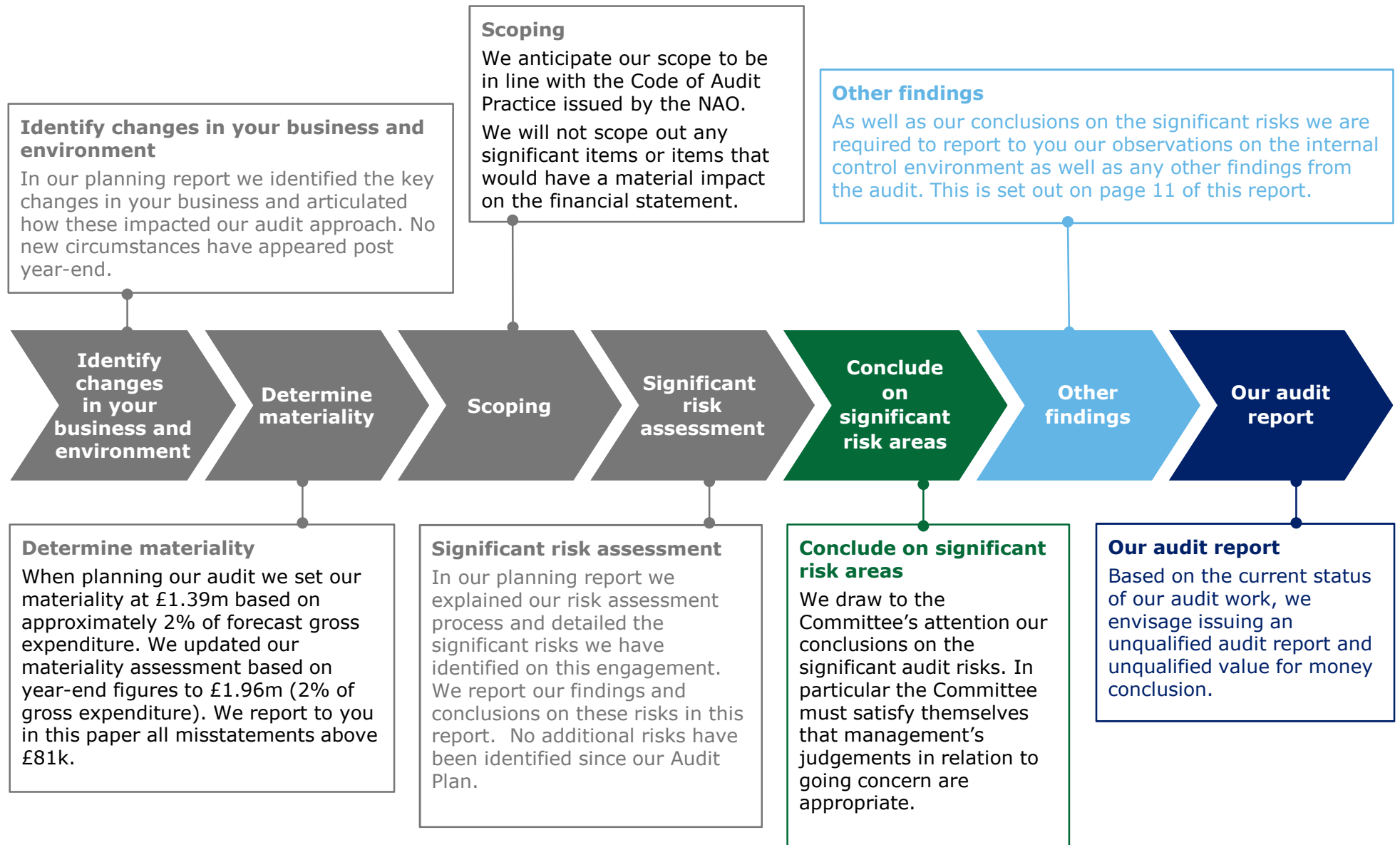
Introduction

The key messages in this report (continued)

Value for Money	<ul style="list-style-type: none">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	<ul style="list-style-type: none">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.The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE.We suggested some changes to management for consideration which have been adopted in the updated version of the accounts.
Duties as public auditor	<ul style="list-style-type: none">We did not receive any 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	<ul style="list-style-type: none">The Authority is not a sampled component for WGA reporting. We are required to report our overall audit opinion and key issues from our audit to the National Audit Office following completion of the audit.

Our audit explained










We tailor our audit to your Authority



Significant audit risks

Dashboard

This slide sets out the significant audit risks that we identified, as set out in the audit plan, presented to the Authority in March 2019 and sets out the pages where further information on our testing is presented.

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Audit testing conclusion	Page no.
Completeness of expenditure			D+I	Insights raised		Satisfactory	7
Property Valuation			D+I	Insights raised		Satisfactory	8
Management override of controls			D+I	Insights raised		Satisfactory	9

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant audit risks

Risk 1 – Completeness of expenditure

Risk identified

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

Given the Authority's current 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 have undertaken the following:

- We have obtained an understanding of the design and implementation of the key controls in place in relation to recording of accruals including year-end transactions;
- We have 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 have undertaken further analytical procedures; and
- We have reviewed and challenged the assumptions made in relation to year-end estimates and judgements to assess completeness and accuracy of recorded expenditure.

Conclusion

We have completed our work in relation to expenditure. We noted 4 issues in our testing totalling £23,261.38, which resulted in an overall understatement to the expenditure balance, details of this is included on page 17 and an insight has been raised in relation to this on page 12.

Significant audit risks

Risk 2 – Property Valuation

Risk identified	<p>The Authority held £43.7m of property assets (land and buildings) at 31 March 2017 which increased to £49.8m as at 31 March 2018. The increase was mainly due to additions in the year of £1.1m, revaluation of £2.6m and the completion of £1.5m of assets under construction in the year.</p> <p>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 complexities associated with the valuation, and the required accounting transactions, mean that there is a risk over the valuation of property assets. Management undertook a full revaluation during 2018/19.</p>
Deloitte response	<ul style="list-style-type: none">• We have 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 have tested the design and implementation of key controls in place around the property valuation;• We have used our valuation specialists, Deloitte Real Estate, to support our review and to challenge the appropriateness of the assumptions used in the year-end valuation of the Authority's Land and Buildings and are awaiting the finalised report; and• We have 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.
Conclusion	<p>We have substantially completed our work in relation to property valuations. We are awaiting our valuations specialist report on the property valuations. We note an adjustment in relation to the update to the valuation from the 1 April 2018 to 31 March 2019. We have also raised one insight in relation to the valuation process and the lack of documentation and audit trail which is detailed on page 11.</p>

Significant audit risks

Risk 3 – Management override of controls

Risk identified

In accordance with ISA 240 (UK and Ireland) 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

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

- We have tested the design and implementation of key controls in place around journal entries and management estimates;
- We have risk assessed journals and selected items for detailed testing. The journal entries have been 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;
- We have reviewed accounting estimates for biases that could result in material misstatements due to fraud; and,
- We have obtained an understanding of the business rationale of significant transactions that we have become 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.

Conclusion

We have completed our work in relation to management override of controls and note one insight in relation to the segregation of duties for journals postings and journal entry dates which is detailed on page 12.

Other areas of audit focus

We have also identified an area of judgement which we consider a higher risk, which is detailed below.

Accounting for pensions

Risk identified	<p>The net pension liability represents a material element of the Authority's balance sheet. The Authority has pension balances with both South Yorkshire Pension Fund (Local Government Pension Scheme (LGPS)) and Firefighter's Pension Scheme. The valuation of the pension schemes rely on a number of assumptions, most notably around the actuarial assumptions and methodology which results in the Authority's overall valuation.</p> <p>Whilst not identified as a significant risk, there is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable.</p>
Our response	<p>We have:</p> <ul style="list-style-type: none">• Reviewed the assumptions used in both the LGPS and Firefighter's Schemes, subject to additional review following the inclusion of the McCloud judgement within the accounts;• Reviewed the disclosures made in the financial statements;• Involved our pensions specialists in relation to the assumptions used within the valuations; and• Reviewed the GMP equalisation impact on the pension figures disclosed.
Conclusion	<p>We have substantially completed our work in relation to the accounting for pensions, subject to the report from our internal actuaries.</p>

Other significant findings

Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

Area	Observation	Priority
Annual Governance Statement (AGS) assurance	As part of the preparation of the AGS it is noted that there is no assurance received from Barnsley Metropolitan Borough Council (BMBC) regarding the processes that are covered under the SLA. Some form of reporting on the internal control environment should be received from BMBC to ensure that the AGS correctly covers all the relevant areas and any deficiencies are appropriately acknowledged in the AGS.	Medium
Componentisation of fixed asset register	In terms of the valuation report, where the value of the property requires it, componentisation has been undertaken (for assets where their value exceeds £1.2 million) and this has then been split into structure, services and external elements. Of the 30 assets held, 13 have been split into components, however, this componentisation is not then recorded in the fixed asset register (FAR). It is recommended that the valuation report and fixed asset register are componentised to the same level to facilitate a more accurate calculation of depreciation.	Medium
PPE – discussions with valuers	As part of our work on PPE, we noted that the instructions provided to the valuer's, relevant correspondence and the subsequent documentation of judgements made (such as the adoption of the modern equivalent asset assumptions) were not always documented as these discussions were conducted by phone rather than formally documented. It is recommended that management ensure these items are written down either through formal minutes or memos and agreed with the valuation team.	Medium
Reliance on BMBC	As part of the D&I testing on property valuation, we note that all of the valuation work is completed by BMBC. We note that the estates team was involved in the initial identification of assets and overview of valuation work, however, there is minimal subsequent involvement from SYFRA in the process. We recommend that the SYFRA retain a greater degree of ownership of the process to ensure that the decisions made are in line with their understanding.	Medium
PPE disposal	From our PPE testing we noted an item which had been included in the fixed asset register that the service no longer owns. It is noted that this has nil net book value (NBV) and therefore there is no misstatement in relation to NBV, however, a more robust process should be implemented in relation to the disposals process.	High

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

Other significant findings

Internal control and risk management (continued)

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

Area	Observation	Priority
Timeliness of agreeing the SLA between SYFRA and BMBC	<p>The SLA for 2018/19 was presented to members in the Authority meeting on 9 April 2018, at which point the scope of services were agreed, however, further work was requested in relation to price of the services, which was not formally concluded until May 2018.</p> <p>We recommend that in such instances a bridging agreement or similar is put in place to clearly agree the services to be delivered, and the applicable commercial terms, until such time as the negotiations are concluded and the SLA can be formally signed off.</p>	Low
Risk registers to provide targeted score and a source of assurance for each control	<p>Risks are identified at numerous levels, from the Board, committees and risk management steering group all the way down to the team members. Deloitte note that the each risk is assigned a RAG score and the risk register evidences the score at the time of assessment of the risk and the present situation. Deloitte consider this as a good strategy by the management to monitor risks. In order to effectively monitor the risks, Deloitte recommend assigning a target score for each risk and a direct control / indicator which will be monitored to provide management with the information on how the mitigating control is working.</p>	Low
Journal entries	<p>From our journals work we noted that entries from the payroll system can have any date entered in the date effective box in the journal creation form, however, we note that these entries can only be manually entered within the open period in the Integra system. We recommend that management should ensure that effective dates are entered as being the actual date of the journal in the system to enable a clearer tracking of journal entries raised.</p> <p>We also note that within Integra there is an ability for a user to both post and approve journals. We recommend that management implements a retrospective of journals posted report to ensure that nobody has both posted and approved their own journal. We do note that management have in place a process that requires all journals being approved as the mitigating control.</p>	Medium
Expenditure recording	<p>We noted from our testing that invoices which are less than £20,000 that are received after the ledger close down will not be recorded within expenditure due to the value of these invoices. We noted from our testing two errors, which were both less than £20,000, as a result of this leading to an under recording of expenditure. We recommend that management review the processes in place to ensure that the expenditure recorded is not materially understated.</p>	Medium

Some minor IT control findings have been identified which we have raised with management.

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 is unqualified.



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

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.



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 unqualified.



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.

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"> - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; and - Basis of preparation 	<p>We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance.</p> <p>We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>Our review of the Narrative Reports did not highlight any material weaknesses.</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 CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. Our review did not identify any material weaknesses except for the insight raised in relation to the lack of assurance received from BMBC which is documented on page 11.</p>

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 quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

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.

Paul Hewitson
for and on behalf of Deloitte LLP
Newcastle Upon Tyne
July 2019

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) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) reserves £m
Misstatements identified in current year				
Extrapolated creditors error	[1]	0.327	(0.327)	
Collection Fund error	[2]		(0.250) 0.250	
Property valuation update	[3]		(0.167)	0.167
Lump sum pension payment	[4]		0.268 (0.268)	
Depreciation on buildings	[5]	0.460	(0.460)	
Cumulative errors <£82k				
		(0.030)	0.030	
Total		0.757	(0.924)	0.167

- (1) An extrapolated error is noted of £327k, which is caused by the under accrual of two invoices totalling £23k. This is the indicative error within the population as a result of the sampling methodology.
- (2) Transposition error noted in the Doncaster Collection Fund accounting. There is a net nil impact on net assets, however an impact is noted within the disclosure notes.
- (3) Update to the valuation undertaken of land and buildings at 1 April 2018 to 31 March 2019.
- (4) The lump sum payment for pensions have been included as an Authority creditor instead of a Pension Fund creditor. This adjustment reclassifies this creditor to the Pension Fund.
- (5) Difference noted from the difference in the application of Useful Economic Lives in the Asset Management System compared to the valuation report from the external valuers.

Audit adjustments

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
<p>We have raised some minor suggestions on the financial statements, which management are currently working through and we will review the updated version of the financial statements once these have been updated.</p>		

Audit adjustments

Corrected misstatements

The following corrected misstatements have been identified up to the date of this report which have been amended by management.

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	If applicable, control deficiency identified
Interest expense	[1]		0.316 (0.316)		
McCloud update to IAS 19 numbers	[2]	33.238	(33.238)		
Total		33.238	(33.238)		

(1) The interest expense has been incorrectly included in the creditors note instead of borrowings, this adjustment moves the interest expense to be included within the borrowings balance and is a presentational change.

(2) The McCloud judgement has required restated pension assumptions to be run for the Local Government Pension Scheme and Firefighters Pension Scheme.

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 are not aware of any fraud or suspected fraud 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 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.

During course of our audit, we have had discussions with management and those charged with governance.

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

Concerns:

We have nothing to report in respect of this.

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 that we comply with FRC's 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.
Fees	The audit fee for 2018/19, in line with the fee range provided by PSAA, is £26,523. The reworking of the pension liability costs arising from the McCloud / Sargeant case has resulted in significant unforeseen costs being incurred by both our senior team and our specialists. We will seek to agree a variation to the fees, in accordance with the terms of the PSAA contract, to recover these additional costs. No non-audit fees have been charged by Deloitte in the period.
Non-audit services	In our opinion there are no inconsistencies between FRC 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.
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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