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West Yorkshire Fire & Rescue Authority

Update report to the Audit Committee for the year ending 31 March 2020

October 2020

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Introduction

The key messages in this report

I have pleasure in presenting our update report to the Audit Committee (the Committee) of West 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 January 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 at an advanced stage at the date of issue of this report with the following key matters still outstanding: • receipt and evaluation of information from West Yorkshire Fund auditors; • receipt of our final specialists reports in relation to pensions; • evaluation of the impact of McCloud and Goodwin on the pension schemes; • receipt and review of updated pension reports; • resolution of queries on creditors testing; • finalisation of the creditors note and testing of updated note; • review of fair value disclosure provided by Arlingclose; • tie through of narrative report to updated accounts; • finalisation of notes testing following amendments to notes; • receipt and full review of final, updated financial statements; • 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 these matters including an update regarding the status of the audit at the meeting.
Conclusions from our testing	• We have not identified any significant uncorrected audit adjustments or disclosure deficiencies. We have provided to management our proposed changes to the accounts, and are awaiting an updated version of the accounts to check the changes have been 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 24 to 26. • 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, Avison Young, 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 pages 17 and 18.

Introduction

The key messages in this report (continued)

Financial Sustainability and Value for Money	• In the CIES, the Authority reported an accounting surplus of £86.810m for the year (2018/19: deficit £98.788m) which is mainly due to an actuarial gain on the pension liability of £110.288m (2018/19: loss £39.905m). At the provision of service line the Authority showed a net deficit of £22.170m (2018/19: £64.084m). At year end the Authority had usable reserves of £34.668m (31 March 2019: £36.290m) and unusable reserves of (£1,375.637m) (31 March 2019: (£1,454.069m)). • 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 not yet been published, and is expected in September 2020. We anticipate that the Authority will remain below the threshold for WGA reporting, if this changes we will communicate this to the committee.

Paul Hewitson

Audit Director

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit 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 Committee has significantly expanded. We set out here a summary of the core areas of Audit 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 Committee in fulfilling its remit.

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.

- Make recommendations as to the auditor appointment and implement a policy on the engagement of the external auditor to supply non-audit services.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.

- Review of external audit findings, key judgements, level of misstatements.

- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.

- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, where requested, provide advice in respect of the fair, balanced and understandable statement.

Internal controls and risks

- Review the internal control and risk management systems (unless expressly addressed by separate board risk committee).

- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Consider annually whether there is a need for an internal audit function and make a recommendation accordingly to the Board.

- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

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 committee

As explained further in the Responsibilities of the Audit Committee slide, on page 5, the Audit 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 to 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.

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.

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Our audit explained

We tailor our audit to your organisation

Identify changes in your business and environment

In our planning report we identified the key changes in your business and articulated how these impacted our audit approach.

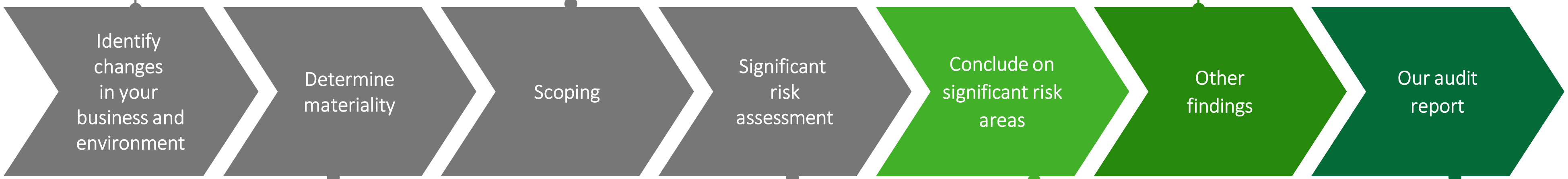
We have not identified any further changes as a result of the covid-19 pandemic or subsequent to publishing our planning report.

Scoping

COVID-19 consequences have impacted our work. Details are included on pages 8 – 10. There have been no other changes to the scope of our work as set out in the audit plan which is carried out in accordance with the Code of Audit Practice and supporting auditor guidance notes issued by the NAO.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. This set out on pages 17 and 18.



Determine materiality

When planning our audit we set our materiality for the Authority audit at £1.68m (2018/19: £2.04m) based on approximately 2% of estimated gross expenditure. We updated our materiality based on year-end outturn to £2.26m (2018/19: £1.84m). We report to you in this paper all misstatements above £113k (2018/19: £93k).

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report. No additional significant risks have been identified since our Audit Plan.

Conclude on significant risk areas

We draw to the Committee's attention our observations on the significant audit risks from the work so far performed. The Committee members must satisfy themselves that management's judgements are appropriate and will need to agree arrangements to consider any significant findings arising from audit work which is not yet complete.

Our audit report

Based on the current status of our audit work, we envisage issuing an unmodified audit report and unmodified value for money conclusion.

We expect to include an "emphasis of matter" paragraph in relation to material uncertainties around the property valuation.

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
We have considered the key impacts on the business such as: • Interruptions to service provision • Supply chain disruptions • Unavailability of personnel • Reductions in income • The closure of facilities and premises	We have considered the impact of the outbreak on the annual report and financial statements, discussed further on the next slide including: • Principal risk disclosures • Impact on property, plant and equipment • Valuation of commercial or investment properties • Impact on pension fund investment measurement and impairment • Financial sustainability assessment • Events after the reporting period and relevant disclosures • Bad debts provision policy • Narrative reporting • Impairment of non-current assets • Allowance for expected credit losses	We have considered the impact on the audit including: • Resource planning • Timetable of the audit • Impact on our risk assessment • Logistics including meetings with entity personnel

	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. We understand that the Authority is disclosing the material uncertainty in the 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 West 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.

	Potential Impact on annual report and financial statements	Audit response
COVID-19 related income received pre year end	• There was one main receipt of income related to COVID-19 that was received pre 31 March 2020: • **Covid-19 LA Support grant.** This was the first tranche of £1.6bn passed out to Local Authorities by MCHLG on March 27 2020. West Yorkshire Fire and Rescue received £436k. This grant was unringfenced and without conditions and therefore should be recognised in income with any unspent amounts carried in reserves.	• We note that after discussion and reference to guidance these have been treated correctly in the statement of accounts. • The remaining COVID related income receipts received after the year end will be considered as part of the 2020/21 audit.
Narrative and other reporting issues	The following areas need to be considered by local authorities as having being impacted on by the COVID-19 pandemic. • 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. • Reporting judgements and estimation uncertainty, the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities	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.

Significant risks

Dashboard

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

Overly prudent, likely to lead to future credit

Overly optimistic, likely to lead to future debit.

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Controls approach adopted

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

Significant risks (continued)

Valuation of property assets

Risk identified

The Authority held £74.5m of property assets (land and buildings) at 31 March 2018 which increased to £79.5m as at 31 March 2019. This increase was due to additions in the year of £1.19m and net movement on revaluation and depreciation of £3.81m.

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. A full revaluation was undertaken in 2018/19 and we understand that management have completed a full revaluation of 20% of the assets and 80% of assets have had a desktop valuation as at 31 March 2020. The risk is therefore surrounding the valuation of property assets within the year-end accounts.

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;
- 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.

Deloitte view

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. Management have incorporated this within their financial statements. We have discussed with management regarding expanding the disclosure provided within the accounts. We are awaiting an updated version of the accounts in order to check.

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 have made a recommendation to management as part of our comments on the financial statements regarding their disclosure on COVID-19. We will review the changes when updated accounts are received.

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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 and are currently resolving queries with management;
- We undertook further analytical procedures aimed at identifying distortion to the pattern of expenditure recorded, though owing to the unusual distortion caused by covid-19 this was not possible, and therefore additional substantive procedures were performed;
- 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 and are awaiting the replies to some queries on our testing; 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 is in progress. We are awaiting resolution to our remaining queries on our sample testing. We will provide an oral update at the committee meeting.

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.

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.

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 did not identify any significant risks or areas of focus in respect of the Authority's use of resources. As part of our year-end audit procedures we did not identify anything of significance and we did not identify any areas of risk from our review of post year-end events.

We have nothing to report in respect of this.

Deloitte view

Based on the current status of our audit work, 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, West 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.

Your control environment and findings

Control insights and areas for management focus

Area of observation	Deloitte recommendation	Management response and remediation plan
Collection Fund	Management should review their accounting for the Collection Fund to ensure that the work papers and associated disclosure is in line with the CIPFA code.	It is managements intention to draft an early 2020/21 disclosure template and share this with the auditor to ensure compliance in advance of year end for 2020/21. Additional training to be taken within 2020/21.
Pensions	From our review of the GAD report on the Firefighters Pension Scheme and the draft financial statements we note that the information provided to GAD in relation to the lump sums was incorrectly analysed between the 1992 and 2015 schemes and that a lump sum that was paid in 19/20 was not recorded within the information provided to GAD. Management should re-examine the quality control procedures in respect of the provision of information to GAD.	A review of the quality controls procedure to take place with an additional member of the team reviewing. The lump sum in question was paid in 19/20 but was not expected to be paid until 2 April 2020 (information disclosed from West Yorkshire Pension Fund) and therefore was not included at the time of compiling information to the Governments Actuarial Department (GAD) which was submitted in February 2020. Subsequently, this was amended for payment on 31 March 2020.
Note 9 income classification	Management should review the groupings of their ledger to ensure that the mapping then directly links to the note disclosure and is code compliant.	Review of general ledger codes assigned to income is required. The totality of income is complete and correct, however, the categorization on some general ledger codes is inconsistent to the category of income required.
Expenditure control	Management should review the expenditure control to ensure that it appropriately identifies both creditors and accruals. Currently the control involves a review of the Vendor Invoice Management (VIM) system, which records invoices received but not posted to the ledger, and the posting of these as accruals, which is incorrect in line with IAS 37. The review of the accruals identified by the respective officers in charge of directorates / profit centre did not have a formal approval and there was no formal review of the March monitoring capital report which included these items. There should be a re-examination of the design of the control and review of the quality control procedures in respect of this.	The amounts disclosed overall in both the Balance Sheet and Creditors (note 26) are complete and correct in their totality, however, the presentation needs additional review to be fully compliant with IAS37.

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Your control environment and findings (continued)

Control insights and areas for management focus

Area of observation	Deloitte recommendation	Management response and remediation plan
Assets Under Construction	We note that from our enquiries, management do not routinely review their assets under construction balance for indicators of impairment. We recommend that this review is completed annually to ensure that if an impairment is identified this is recorded within the general ledger throughout construction rather than on reclassification to operational property plant and equipment.	The Authority fully revalues any Assets Under Construction once they become fully operational. We will take guidance from our external valuer and impair prior to becoming fully operational if required on the basis of that guidance.
Related party forms	The related party forms require members to disclose any transactions between themselves and the Authority or any transactions between the Authority and a business controlled by themselves or a close relative. The related party forms should require members to disclose their interests rather than transactions, and then these disclosures used by the Authority in order to check for transactions.	Although in 2019/20 this would not have resulted in any overall change, an amendment to the form shall be made when disclosing related parties within the 2020/21 statement of accounts.
Service Level Agreement	As raised in the prior year, we note that as part of the renegotiation of the SLA that WYFRA did not incorporate the routine receiving of assurance from KMBC on the hosted IT systems. Formal annual statements of assurance over the hosted IT systems should be received to incorporate: cyber security, incident monitoring / response, starters / movers / leavers, user access reviews, change management and backups.	Whilst the 2020/21 Service Level Agreement does not expressly set out the assurance statements to be received as part of Schedule 6 of the SLA on a quarterly basis, the Authority is in receipt of aforementioned information on an annual basis. At the point of the new agreement being drafted, this will be expressed in the new contract.

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).

Based on our work to date, 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 are awaiting an updated set of accounts to review, however, based on our work to date, our conclusion in this area is satisfactory.

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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	The Narrative Report is expected to address (as relevant to the Authority): - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; and - Basis of preparation - Future sustainability and risks to this posed by COVID-19.	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. We note that management make good use of pictures and links throughout their narrative report. 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. Our assessment of the impact of COVID-19 can be seen from pages 8 – 10. We are awaiting an updated version back from the Authority to check that it complied with all the relevant requirements.
Annual Governance Statement	The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.	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.

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.

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
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
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
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)
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 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.

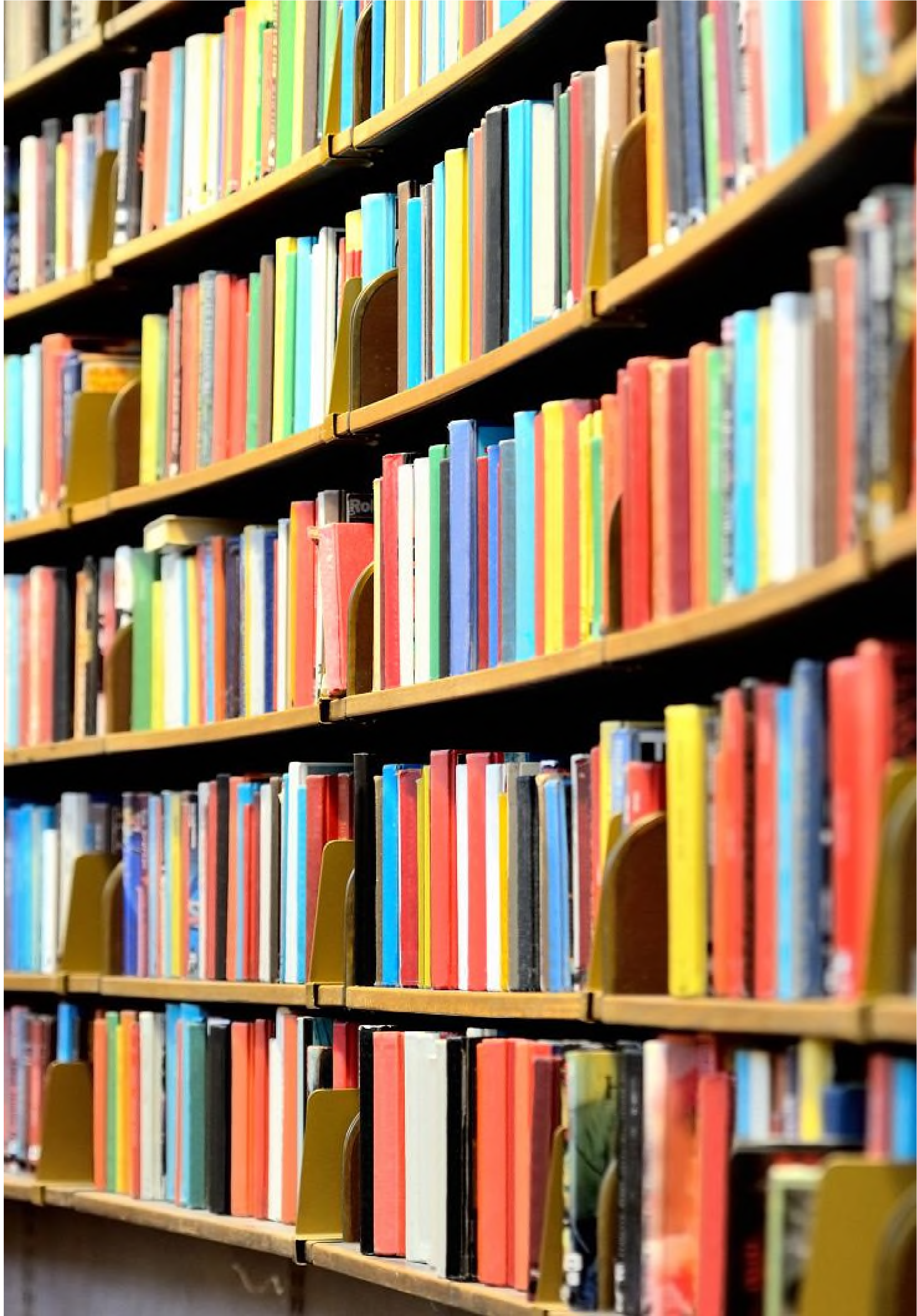
This report has been prepared for the Audit Committee and Authority, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

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

for and on behalf of Deloitte LLP

October 2020

Appendices



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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 £0.616 million.

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) reserves £m
Misstatements identified in prior year affecting current year				
Creditors	[1]	(0.294)		0.294
Misstatements identified in current year				
LGPS share	[2]	(0.423)	0.423	
Accruals	[3]	(0.193)	0.193	
Aggregation of misstatements individually < £113k				
Total		**(0.910)**	**0.616**	**0.294**

[1] Relates to an extrapolated under accrual for expenditure noted in our prior year audit which carries forward to the current year.

[2] AoN have used the wrong share of assets for WYFRA for the 31/3/20 accounting figures.

[3] Relates to over accrual for expenditure noted from two errors of £21k in our accruals testing.

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.

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) reserves £m
Collection Fund prior year	[1]		0.189 (0.189)	
Collection Fund current year	[2]	0.058	(0.058) 0.002 (0.002)	
Note 9	[3]	0.564 (0.564)		
Surplus from collection fund	[4]	0.278		(0.278)
Total		**0.336**	**(0.058)**	**(0.278)**

[1] Management incorrectly amended the prior year collection fund figures in respect of the recording of the net debtor / net creditor position with the billing authority.

[2] Transposition error noted in the Collection Fund in respect of the Leeds Council return, and also correction in the current year of incorrect recording of the net debtor / net creditor position with the billing authority.

[3] Management have incorrectly analysed the disclosure within note 9 between customer and client receipts and government grants. This corrects the classification of income between these headings and also corrects the income reported in note 34.

[4] Correction to update for the errors notes in the collection fund.

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 have raised some disclosure points for management to correct. We will review the updated version of the financial statements once these have been updated and report any non-trivial remaining deficiencies.		

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.

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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 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 2019/20, in line with the scale fee provided PSAA, is £27,782 (2018/19: £37,782). Owing to errors in the Collection Fund, review of multiple versions of note 9, additional procedures in respect of accounting for creditors, and additional pensions work 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.
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.
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.

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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