External Audit Report 2015/16

West Yorkshire Fire and Rescue Authority

—

9 September 2016

Contents

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External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Prentice, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Section one: Introduction

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Authority; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- Our audit work at West Yorkshire Fire and Rescue Authority ('the Authority') in relation to the Authority's 2015/16 financial statements and associated Pension Schemes; and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in January 2016, set out the four stages of our financial statements audit process.

Planning | Control Evaluation | Substantive Procedures | Completion

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Section two: Headlines

Headlines

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit has identified a total of four differences. These differences have no net impact on the general fund or the balance sheet, although there is a movements between debtors and cash on the balance sheet. Some changes were also required to some notes to the accounts. The main differences relate to the notes to the Firefighters Pension Fund Account. While the Accounting Code Guidance Notes have been used to produce the accounting entries, they have not been fully applied as intended. Overall, however, these differences do not impact on the net pension liabilities and pension reserve which agree to the Actuary's report. We have included a full list of audit adjustments at Appendix two. All of these were adjusted by the Authority We have raised four recommendations in relation to the matters highlighted above, which are summarised in Appendix one.
Key financial statements audit risks	We identified the following key financial statements audit risks in our 15/16 External audit plan issued in January 2016. — Fraud in revenue recognition. — Management override of controls. We have worked with officers throughout the year to discuss these key risk(s) and our detailed findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas.

Headlines (cont.)

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. The remainder of this report provides further details on each area.

Accounts production and audit process	We received complete draft accounts on 4 July 2016 which was before the audit fieldwork commenced. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code The Authority has good processes in place for the production of the accounts and good quality supporting working papers although the standard was occasionally variable. Officers dealt efficiently with audit queries although difficulties arose for both of us in some areas, particularly around pensions accounting, where the audit trail was not fully clear. Overall, the audit process should still be completed by the statutory deadline. As in previous years, we will debrief with the Closedown team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particular we would like to thank Authority officers who were available throughout the audit visit to answer our queries.
VFM conclusion and risk areas	We did not identify any VFM risks in our External audit plan 2015/16 issued in January 2016. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.

Headlines (cont.)

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. The remainder of this report provides further details on each area.

Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: — Final review procedures; and — Cash Flow Statement. You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We will provide a draft of this representations letter to the Chief Finance and Procurement Officer in early September 2016. We draw your attention to the requirement in our representations letter for you to confirm to us that you have disclosed all relevant related parties to us. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Section three: Financial Statements

Proposed opinion and audit differences

Our audit has identified a total of four audit adjustments.

There is no impact on the General Fund or the net worth of the Authority.

The main change is a movement from cash to debtors to reflect grant still due from the Government.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 16 September 2016.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix three for more information on materiality) level for this year's audit was set at £1.1 million. Audit differences below £55k are not considered significant.

Our audit identified a total of four significant audit differences, which we set out in Appendix two. It is our understanding that these will be adjusted in the final version of the financial statements.

The tables on the right illustrate the total impact of audit differences on the Authority's primary statements.

There is no net impact on the General Fund as a result of audit adjustments. The amendments primarily impact upon the Firefighters Pension Fund Account related notes.

Balance sheet as at 31 March 2016

£m	Pre-audit	Post-audit	*Ref (App 2)*
Property, plant and equipment	90.4	90.4	
Other long term assets	0.9	0.9	
Current assets	22.3	22.9	*1*
Current liabilities	-8.8	-9.4	*1*
Long term liabilities	-1,188.9	-1,188.9	
Net worth	**-1084.1**	**-1084.1**	
General Fund	23.3	23.3	
Other usable reserves	5.7	5.7	
Unusable reserves	-1,113.1	-1,113.0	
Total reserves	**-1084.1**	**-1084.1**	

Proposed opinion and audit differences (cont.)

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts by 30 September 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

Of the other audit adjustments we have identified, the most significant in monetary value are as follows:

— *Note 34 to the accounts needed amending to reflect adjustments to the Pension adjustments to the accounts; and*

— *Segmental Reporting note 25: gross CoS expenditure and gross CoS income were inconsistent with the CIES by £2,167,000 and net effect £0.*

There were other non-material disclosure adjustments that do not effect the Primary Statements but only the notes to the accounts.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

— It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and

— It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a number of comments in respect of its format and content which the Authority has agreed to amend where significant.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16*, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work. The table below sets out our detailed findings for the risks that are generic to all authorities.

Significant Risk 1 - Fraud in revenue recognition

We do not consider this to be a significant risk for fire authorities as there are limited incentives and opportunities to manipulate the way income is recognised.

We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

Since we have rebutted this presumed risk, there has been no impact on our audit work.

Significant Risk 2 - Management override of controls

Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:

Assessment of subjective areas			
Asset/liability class	**Prudence level**	**Balance (£m)**	**KPMG comment**
Pensions	4	£1,142.8 million *(PY: £1,257.1 million)*	We have gained assurance from the auditors of Bradford Council, who administer the West Yorkshire Pension Fund, that the systems are appropriate and use appropriate assumptions. Only £17.9m of the liabilities relates to the LG Pension Scheme but the future trend is still likely to require higher contributions to ensure sufficient funding is available We have gained assurance that the GAD report judgements over discount rate, inflation, discount rate, salary growth, and life expectancy have been appropriately completed per industry standards. Although firefighters liabilities have decreased they remain substantial. However the Government remains liable for the annual deficit through top up grant which reduces the risk to the Authority. However higher contributions in future also appear to be most likely.
Earmarked Reserves	2	£5.66 million *(PY: £4.77 million)*	We have reviewed earmarked reserves to ensure that the reason for the reserve is appropriate and therefore appropriately raised through either expenditure or MiRS movements to earmarked reserves. While the balance of earmarked reserves of £5.66m is relatively low, there is £23.2m available in general fund which will partly help support future financial pressures, although we would again stress that this only provides temporary support and not a long term solution.

Accounts production and audit process

The Authority has a well established and sound accounts production process. This operated well in 2015/16, and the standard of accounts and supporting working papers was high.

Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	We consider that accounting practices are generally appropriate although some specific areas identified in this report should be revisited as part of the post audit review.
Completeness of draft accounts	We received a complete set of draft accounts on 4 July 2016. The Authority has made a small number of presentational changes to the accounts presented for audit however there have been no changes which we consider to be fundamental.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 21 February 2016 and 8 May 2016 and discussed with Senior Finance Manager, set out our working paper requirements for the audit. The quality of working papers provided met the standards specified in our *Accounts Audit Protocol* although there was some variation. One item requested was not provided in advance and so led to delays in the audit: - In-year journals from Kirklees Council.
Quality of supporting working papers (continued)	We also had an initial delay in the first two days in accessing the working papers due to IT updates that prevented our electronic access.
Response to audit queries	Overall officers responded to queries in a reasonable time. We particularly appreciated the efforts made to chase queries required from officers at Kirklees Council. However, we had difficulty following through some areas, pensions entries in particular, where officers had not fully followed the Accounting Code guidance notes. These have led to changes to some notes to the accounts and additional time to resolve those queries.

Findings in respect of the control environment for key financial systems

From our testing of controls, we found the following risks to the control environment:

- Lack of separation of duties on, or control of, journal entries; and
- Lack of review of monthly bank reconciliations.

These issues have been reported in Appendix 1 to support best practice.

Prior year recommendations

There were no prior year recommendations made in last year's ISA 260 report.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representations letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of West Yorkshire Fire and Rescue Authority for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and West Yorkshire Fire and Rescue Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix four in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Chief Finance and Procurement Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related parties, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

Section four: Value for Money

VFM Conclusion

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements in 2015/16.

Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criterion supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

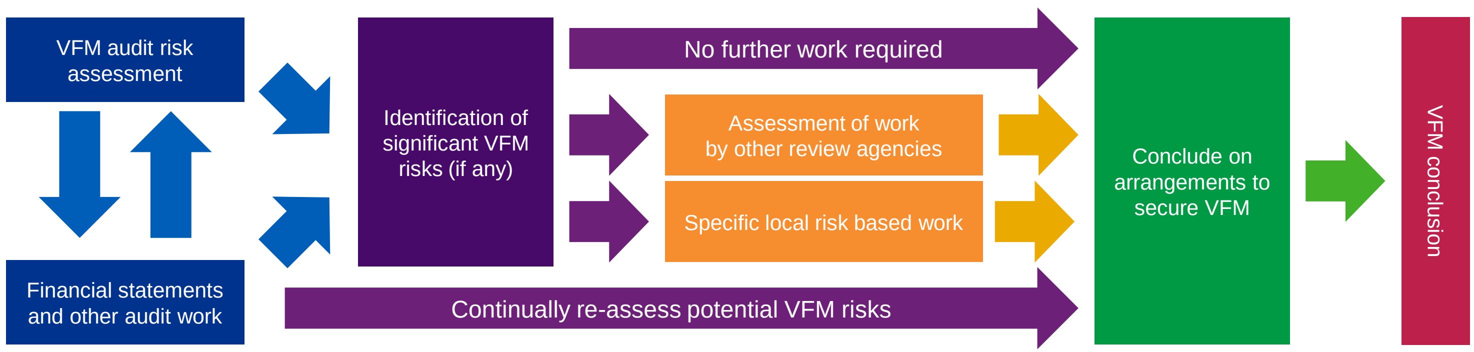
Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making	Sustainable resource deployment	Working with partners and third parties
✓ Met	✓ Met	✓ Met



Specific VFM Risks

We did not identify any specific VFM risks.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan 2015/16,* we have:

— Assessed the Authority's key business risks which are relevant to our VFM conclusion;

— Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and

— Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas.

Summary findings

The Authority had further cuts in Government funding in 2015/16 and required £4m in savings to meet its budget. Due to vacancy levels and underspends in other areas, a further £3.3m underspend was achieved which has been added to the general fund balance. There is now over £20m available to support future spending but the overall position remains challenging in the medium term. The MTFP already assumes that £10m of this balance will be used over the next four years.

Service performance remains good with nothing to indicate that any specific areas require further attention.

Appendices

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will take. The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

We have made a number of recommendations as a result of this year's audit.

Priority rating for recommendations					
❶	*Priority one*: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷	*Priority two*: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸	*Priority three*: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	❷	**Accountability for bank account reconciliations** As part of our year-end testing we noted that although the bank account is reconciled each month by Kirkees MDC, the Fire Authority does not receive these completed reconciliations. Our testing found that the Fire Authority had only received the reconciliation as at 31 March 2016. **Recommendation** We recommend that the Authority seeks evidence each month from Kirklees MDC that the bank account has been reconciled. This should be reviewed to confirm that the Authority agrees the reconciliation.	**Management response:** **Agreed** **Responsible officer:** **Geoff Maren** **Due Date:** **31 October 2016**

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	❶	**Lack of separation of duties and control of journal entries** We are required to raise the control risks within the current journal process. Controls over journals are particularly important as they can be used to override other controls within the organisation making it possible to manipulate accounting records and prepare fraudulent financial statements. The process is that each person, who has access, inputs their journals without any review or independent check. We are informed there are exceptions to this: at the year end, when the Senior Finance Manager agrees some journals before staff input them; and also the Barclaycard and petty cash journals. However, there is still a lack of separation of duties on inputting these agreed journals into the system. This journal process is the same for journals input by Kirklees Council staff into the Authority's ledger, although the Senior Finance Manager does not review any of these. The Senior Finance Manager and Chief Finance Officer have informed us their assurance is from the budget monitoring process. However, balance sheet codes are excluded from budget monitoring as are some revenue codes. **Recommendation** The Audit Committee should consider whether it has sufficient assurance over journal entries into the accounts. We would recommend strengthening arrangements by, as a minimum: • the Senior Finance Manager should run a regular system report of journals effecting balance sheet and unmonitored revenue codes and review to confirm that significant entries are appropriate, providing a signature as evidence; and • Independent review of the Senior Finance Manager's own journals on these codes.	**Management response:** **Agreed in relation to areas not covered by budget monitoring** **Responsible officer:** **Alison Wood** **Due Date:** 1 October 2016

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	❶	**Lack of separation of duties and control of journal entries (continued)** **Recommendation** • Each month WYFRA should review the journals raised by Kirklees MDC which affect the Balance Sheet.	
3	❷	**Accruals process** During our work on accruals we noted that the Premises department do not operate the Opex ordering system. **Recommendation** We recommend that the Opex electronic ordering system should be used by all departments.	**Management response:** **Agreed** **Responsible officer:** **Noel Rodriguez** **Due Date:** 1 April 2017

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
4	2	**Accounting for Firefighters Pension Fund** During our work on the notes to the Firefighters Pension Fund Account we noted the following incorrect accounting entries for Firefighters Pension adjustments: • some of the entries required per the Firefighters pension section of the Code guidance notes were not completed; • the IAS19 adjustment to remove the employer's contributions from Cost of Services expenditure inappropriately deducts payments to pensioners instead (see page 27). **Recommendation** The Authority should review its accounting to support the Firefighters Pension Fund Account to ensure the submitted accounts meet the Accounting Code guidance requirements. Going forward the accounting entries for the Firefighters Pension Fund should be subject to review by a second officer.	**Management response:** **Agreed. We will work closely with KPMG to ensure fully addressed going forward.** **Responsible officer:** **Alison Wood** **Due Date:** **31 October 2016**

Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

We are reporting all audit differences over £55,000.

It is our understanding that these will be adjusted.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of the Authority's financial statements for the year ended 31 March 2016. It is our understanding that these have been adjusted. We will check during our final review of the revised set of financial statements which we have received.

	Impact					
No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1			Dr Receivables £4,006,000 Cr Cash £3,510,000	Dr Creditors (495,000)		WYFRA is not showing a receivable in its accounts for the pension top-up grant still due at 31 March which paragraph G15 of the Detailed CIPFA Guidance requires. The Senior Finance Manager credited the original Debtor out of the ledger, in order to correctly adjust cash. The CIPFA Guidance states that the credit should be to income; this adjustment should then have left the receivable in the accounts as per the CIPFA Guidance.
			Net 495,000	**(495,000)**		**Total impact of adjustments**

Audit differences (cont.)

This slide sets out the significant disclosure errors found at audit.

Therefore, there is no net impact of these adjustments on the General Fund or Balance Sheet or Pension Fund Account as a result of the errors.

The financial statements have been amended for all of the errors identified from the audit process.

These errors relate to disclosure notes and therefore there is no net impact of these adjustments on the General Fund, Balance Sheet or Pension Fund Account as a result of the errors.

Uncorrected disclosure audit differences

We are pleased to report that there are no uncorrected audit differences.

Corrected disclosure audit differences

Material disclosure misstatements

In addition to the items above in Appendix two, our audit identified a small number of material disclosure errors in the financial statements. These have been discussed with management and the financial statements have been amended. :

- note 34 to the accounts:
  - Page 89 (2014/15) and 90 (2015/16) Current Service Cost - note 34 to the draft accounts (table for CIES) shows the gross current service cost figures from the GAD report; this should be shown net of employees' contributions;
  - Page 91 Movement in Reserves Statement 2015/16 (and 2014/15) - the Authority initially showed figures for the Firefighter Schemes under Employer's contributions payable to the scheme, these amounts appear in the GAD report as retirement benefits payable to pensioners. There was a separate line for benefits payable which had no entries ie

15/16	Pre-audit £000	Post audit £000
Employer's contributions payable to scheme	(46,697)	8,233
Retirement benefits payable to pensioners	0	(46,947)

- Segmental Reporting note 25: gross CoS expenditure and gross CoS income were inconsistent with the CIES by £2,167,000, net effect £0. Adjustments were completed in order to gross up the income and expenditure to make consistent with the CIES. This effects the reconciliation table on page 76 and the detailed table on page 78.

Audit differences (cont.)

This slide sets out the significant disclosure errors found at audit.

Again, there is no net impact of these adjustments on the General Fund, Balance Sheet or Pension Fund Account as a result of the errors.

The financial statements have been amended for all of the errors identified from the audit process.

Non material disclosure audit differences

Our audit identified a small number of non material disclosure errors in the financial statements. These have been discussed with management and the financial statements have been amended for all of them.

- The classification of cash and cash equivalents in note 19 was incorrectly classified as short-term investments. Although they were held as interest earning savings, they were held in instant access accounts. The resulting change is:
  - CR Short-term investments £935,000; and
  - DR Cash at the bank £935,000.
- Cash and cash equivalents, note 19: the draft accounts didn't include the bank overdraft figure of £104,000 in these figures, which is a bank current account.
- Segmental Reporting note 25: impairments of £718,000 need separating out of the Transfer to Reserves in the reconciliation on page 76.
- Financial Instruments note 15:
  - Investments: the bank overdraft figure of £104,000 was not included in the Financial Instruments note in the draft accounts; and
  - Creditors: the working paper for creditors had a formula error, which lead to the incorrect value being shown, the true value is £3,225,000, which is £919,000 more than the draft disclosure
- A number of other minor amendments focused on presentational improvements have also been made to the draft financial statements.

Materiality and reporting of audit differences

For 2015/16 our materiality is £1.1million for the Authority's accounts.

We have reported all audit differences over £55k for the Authority's accounts to the Audit Committee.

Materiality

The assessment of what is material is a matter of professional judgement and includes consideration of three aspects: materiality by value, nature and context.

— Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

— Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

— Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We reassessed materiality for the Authority at the start of the final accounts audit based upon the draft financial statements provided to us.

Materiality for the Authority's accounts was set at £1.1 million which equates to around 1.95 percent of gross expenditure excluding ISA 19 entries. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £55,000 for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of *Audit Matters with Those Charged with Governance'* that are applicable to the audit. This means that the appointed auditor must disclose in writing:

— Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

— The related safeguards that are in place.

— The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from this. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of West Yorkshire Fire and Rescue Authority for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and West Yorkshire Fire and Rescue Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

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