

# Annual Audit Letter

## Leicester, Leicestershire & Rutland Combined Fire Authority

Year ending 31 March 2020





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# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Leicester, Leicestershire & Rutland Combined Fire Authority (the Authority) for the year ended 31 March 2020. Although this letter is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 21 December 2020 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the Authority's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.</li></ul>
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that:</p> <ul style="list-style-type: none"><li>• the other information in the Statement of Accounts is consistent with the audited financial statements.</li></ul>
Value for money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.</p>
Reporting to the group auditor	<p>In line with group audit instructions, issued by the NAO on 4<sup>th</sup> November, we reported to the group auditor in line with the requirements applicable to the Authority's WGA return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Authority.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

### The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Authority and whether they give a true and fair view of the Authority's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Authority's financial position as at 31 March 2020 and of its financial performance for the year then ended. We included an emphasis of matter paragraph in our report to highlight the material valuation uncertainty in relation to property assets arising due to the COVID-19 pandemic, that was disclosed by the Authority in the financial statements. Our opinion was not modified in respect of this matter.

### Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Authority. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure.	£1,193,000
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£36,000
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Members allowances - Senior officer remunerations - Exit packages	£15,000 £5,000 £2,000



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Authority's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Corporate Governance Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p><b>Management override of controls</b></p> <p>The International Standards on auditing presume that management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a mandatory significant risk on all audits.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>Accounting estimates impacting on amounts included in the financial statements;</li> <li>Consideration of identified significant transactions outside the normal course of business; and</li> <li>Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>	<p>Our audit work has provided the assurance we sought and has not identified any material issues to bring to your attention. There is no indication of management override of controls.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p><b>Property, Plant and Equipment Valuation</b></p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Authority's holding of PPE. Although the Authority uses a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the valuation of PPE to be an area of significant risk.</p>	<p>We addressed this risk by considering the Authority's arrangements for ensuring that PPE values are reasonable and used corroborative evidence to assess the reasonableness of the valuations provided by the Authority's valuer. We also assessed the competence, skills and experience of the valuer.</p> <p>We have reviewed the valuation methodology used for assets valued in 2019/20 and tested the underlying data and assumptions. We have compared the valuation output to market intelligence to gain assurance that the valuations are in line with market expectations.</p> <p>We have reviewed and considered the robustness of the approach taken by the Authority to address the risk of assets not subject to valuation in 2019/20 being materially misstated. We have also considered the movement in market indices between the date of valuation and the year end to determine whether values have moved materially between the dates.</p> <p>We also considered the impact of COVID-19 on the valuations to gain additional assurance on their reasonableness.</p>	<p>The valuer followed guidance issued by the Royal Institute of Chartered Surveyors and their valuation report disclosed a "material valuation uncertainty" in relation to the valuation of the Authority's land and buildings. This has been disclosed in note 15 of the final version of the financial statements. In line with normal practice, we included reference to this disclosure as an 'emphasis of matter' in our audit report. The purpose of this paragraph is to draw attention to this disclosure, it is not a qualification and does not modify our proposed unqualified opinion on the financial statements.</p> <p>We did not identify any other matters to draw to the attention of Members.</p>





## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p><b>Defined benefits liability valuation</b></p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. Moreover, in 2019/20 the local government pension assets and liabilities are subject to triennial revaluation. This results in an increased risk of material misstatement.</p>	<p>We discussed with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls that you have in place to assess the reasonableness of the figures provided by the Actuary and considered the reasonableness of the Actuary's output, referring to our expert's report on all actuaries nationally.</p> <p>We reviewed the appropriateness of the key assumptions included within the valuations, compared them to expected ranges and reviewed the methodology applied in the valuation. We also considered the adequacy of disclosures in the financial statements.</p> <p>We received assurance from the auditor of the Leicestershire Pension Fund.</p>	<p>Our work provided the required assurance.</p> <p>Our Audit Report included an emphasis of matter associated with material uncertainty relating to valuations of Pension Fund property assets.</p> <p>One amendment to the financial statements was required in relation to the McCloud judgement which relates to potential age discrimination arising from transitional protections offered to some existing members of public service pension schemes that were not made available to younger members. As a result, the pension liabilities on the Firefighters' pension scheme reduced by £2.78m.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p><b>Quality of Working Papers</b></p> <p>In our 2018/19 Audit Completion Report we highlighted the difficulties we experienced during the 2018/19 audit which led to the suspension of the audit and additional time being spent by the audit team to complete our procedures. These issues contributed to the late audit opinion and additional fees. The completion report highlighted the problems linked to the quality and timeliness of working papers as well as the initial draft accounts containing material errors.</p>	<p>We have followed up the implementation of the recommendations made in our 2018/19 Audit Completion Report to improve the accounts preparation process for the current year of audit.</p> <p>From discussions with the Finance Team we are aware of changes made to the finance team in 2019/20 to reduce the risk of similar issues impacting on this year's audit. These changes included the Chief Accountant from Leicester City Council overseeing the accounts production and audit process this year, the recruitment of an interim accountant and staff training and standard template working papers being introduced within the finance team.</p> <p>We kept arrangements under review during both the interim and final audit work and had regular meetings with finance officers enabling any issues arising to be addressed promptly.</p>	<p>Our work has provided the assurance we sought. Officers have worked hard to produce good working papers this year which were clear and easy to follow and also provided additional supporting evidence promptly when required. There has been a marked improvement in the quality of the working papers, and the availability of the supporting information that underpins the disclosures in the financial statements.</p>





## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

Our 2019/20 audit has not identified any significant deficiencies to report.

### Follow up of previous internal control points

Last year, we raised three significant internal control issues. We are pleased to report that all of these issues have been addressed.

### Preparation of the Financial Statements

#### Recommendations from last year

We recommend that the Authority fully reviews its processes for preparing the financial statements and makes improvements in its arrangements to prevent a recurrence of the problems with the 2018/19 financial statements in future years.

Key issues to address should include:

- A review of any gaps in the skills and competencies required in the production of the financial statements, and the provision of external support where needed, particularly in complex technical areas;
- Improvements in the level of supervision and review of the production of the draft financial statements;
- Improvements in the arrangements for compiling working papers and providing evidence to show how the figures reflected in the financial statements have been derived; this should include a clear mapping of the trial balance to the financial statements, ensuring that all transactions are properly reflected in the ledger and ensuring that any manual adjustments are properly documented and supported; and
- Implementation of quality assurance processes to ensure the risk of material error in the draft financial statements is minimised.

#### 2019/20 update

The Authority has updated its procedures around the preparation of the accounts in 2019/20. Changes have been made to the finance team and the accounts process was also managed by the Chief Accountant from Leicester City Council to ensure this issue would not be repeated. Our testing of the draft accounts and working papers has not identified any areas of concern. Working papers produced were of good quality and followed a set template and had been subject to a quality review process.



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Internal control recommendations (continued)

#### Accounting for Property, Plant and Equipment (PPE)

##### Recommendation from last year

We recommend that depreciation is not applied to assets under construction, the useful lives of assets are correctly input to the fixed asset register and checked, assets are correctly reflected in the correct category of the asset register so that it can be reconciled to the PPE note and additions are treated correctly in the revaluation reserve in future years. Management understanding and internal control checks on PPE accounting entries need to be improved.

##### 2019/20 update

The Authority has updated its procedures around accounting for PPE and the update of entries to the Fixed Asset Register to ensure that this issue cannot be repeated. Our testing PPE in the current year has not identified any areas of concern.

#### Accounting for Pensions

##### Recommendation from last year

We recommend that officers ensure that pensions disclosures are properly reflected in the financial statements in future years.

##### 2019/20 update

The Authority has updated its procedures around accounting for Pensions and the update of entries to the ledger at the year end to ensure that this issue cannot be repeated. Our testing of pensions in the current year has not identified any areas of concern.



### 3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified
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#### Our audit approach

We are required to consider whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, ‘in all significant respects, 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.’ To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor’s report stated that that, in all significant respects, the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31<sup>st</sup> March 2020.



### 3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>There is a Corporate Governance Framework in place which is subject to annual review. The framework includes a Code of Corporate Governance, the scheme of delegation, the decision making policy and financial and contract regulations. The Code is consistent with the seven principles of good governance as identified in the CIPFA/SOLACE framework - 'Delivering Good Governance in Local Governance</p> <p>A Corporate Governance Committee has been established to assist the Treasurer in discharging her statutory responsibilities. A Corporate risk register is maintained with progress reports being made to Corporate Governance Committee. There is an Internal Audit function in place who also report to the Corporate Governance Committee.</p> <p>There is regular reporting of financial and non financial performance to the Senior Management Team and the Combined Fire Authority and the Corporate Governance Committee.</p> <p>We considered the following aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and, based on our risk-based approach, we did not identify any significant issues or exceptions in the Authority's arrangements:</p> <ul style="list-style-type: none"> <li>a) Acting in the public interest, through demonstrating and applying the principles and values of sound governance;</li> <li>b) Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management;</li> <li>c) Reliable and timely financial reporting that supports the delivery of strategic priorities; and</li> <li>d) Managing risks effectively and maintaining a sound system of internal control.</li> </ul>	Yes



### 3. VALUE FOR MONEY CONCLUSION (continued)

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>The Authority's financial outturn for 2019/20 was positive. The authority underspent £894k on the revenue budget attributable to savings on employee costs as well as an upturn in controlled income. This underspend has been transferred to the capital fund earmarked reserve to fund future capital programmes. In addition there has been slippage on the capital programme of £2.4m of which £2.092m relates to slippage into 20/21 plus £286k of savings.</p> <p>A balanced budget has been set for 2020/21 and a MTFP which covers the period to 2021/22 was agreed by the Authority on the 12 February 2020. The MTFP and capital programmes have not been extended beyond 2 years due to uncertainty on funding. The detailed budget for 20/21 is balanced at £39.4m and does not plan to draw on reserves. The Authority plan to increase general reserves over the next 2 years. A large proportion of the savings plans have already been achieved. Contingencies exist to cover pay awards and strike action.</p> <p>The financial outlook remains challenging, with the added complexity of managing in the context of the COVID-19 pandemic and the continued uncertainty over future funding settlements.</p> <p>'Our Plan' an Integrated Risk Management Plan (IRMP) and Corporate Plan is in place, this sets out how the Authority plans to deliver services to the local population from 2020 to 2024. This states the authority want to avoid new leases and borrowing and will set aside reserves to maintain the estate.</p> <p>In June 2019 HMICFRS rated the Authority as 'requires improvement' in all three inspection pillars. The improvement plan addresses these areas and this is also set out in the Corporate Plan.</p> <p>We considered the following aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and, based on our risk-based approach, we did not identify any significant issues or exceptions in the Authority's arrangements:</p> <ul style="list-style-type: none"> <li>a) Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions;</li> <li>b) Managing and utilising assets effectively to support the delivery of strategic priorities; and</li> <li>c) Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>	Yes



### 3. VALUE FOR MONEY CONCLUSION (continued)

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>The Authority has Corporate Plan in place called 'Our Plan' which sets out its strategic vision, priorities and objectives up until 2024. There are five corporate strategies of which safer communities features partnership working. Strengthening of partnership working with other community safety agencies has been identified as a way to improve data sharing and better target services which will assist in identifying the vulnerable more easily. The plans are facilitated by annual department and district level plans.</p> <p>The Corporate Governance Framework includes Contract Standing Orders which each relevant expenditure item must conform to.</p> <p>We considered the following aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and, based on our risk-based approach, we did not identify any significant issues or exceptions in the Authority's arrangements:</p> <ul style="list-style-type: none"> <li>a) Working with third parties effectively to deliver strategic priorities;</li> <li>b) Commissioning services effectively to support the delivery of strategic priorities; and</li> <li>c) Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>	Yes

#### Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Completion Report, we reported that we had not identified any significant Value for Money risks.

#### Impact of the COVID-19 Pandemic

During March 2020, the significant impact of the COVID-19 pandemic began to have far reaching implications for us all, including an impact on the Authority. In particular, following the lockdown from 26 March 2020, the service needed to respond to the impact of the pandemic on its communities and also needed to adapt to new ways of working.

Our 2019/20 value for money conclusion is focused on the arrangements in place during the 2019/20 financial year. Given the timing of the major impact of the pandemic one week before the end of the financial year, the Authority did not have time to review its arrangements for informed decision making, sustainable resource deployment or working with partners and other third parties during the financial year under review. Consequently, we did not identify an additional significant risk relating to the COVID-19 pandemic in our 2019/20 value for money conclusion work.

The Authority's response to the pandemic will be a major focus of our 2020/21 audit. With this in mind, we have continued to liaise with officers and gain an understanding of the arrangements that have been put in place in the new financial year.





## 4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below Testing Threshold
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Authority's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

### Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

### Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 21 December 2020.

### Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Authority. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



## 5. OUR FEES

### Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Corporate Governance Committee on 11 March 2020. This was based on the scale fee set by Public Sector Audit Appointments Limited. As noted throughout the year, we highlighted that there would be additional recurring audit fees as a result of increased regulatory pressures and requirements. We also mentioned that we would review the final position on fees when the audit was concluded.

Following completion of the audit, we have revisited the fees for 2019/20. In addition to the increase in the base audit fee, there have been some one-off increases in the audit fee for the 2019/20 audit year, and mainly relate to audit issues arising from the Covid-19 pandemic and other matters.

Any variations to the final fee will also require the approval of Public Sector Audit Appointments Limited, which manages the contracts for our work.

Area of work	2019/20 proposed fee / PSAA scale fee (£)	2019/20 final fee (£)
Delivery of audit work under the NAO Code of Audit Practice	22,520	22,520
Recurring increases in the base audit fee arising from regulatory pressures		4,606
One-off fee increases for 2019/20 specific issues		2,052
<b>Total Audit Fees</b>	<b>22,520</b>	<b>29,178</b>

All fees are subject to VAT

### Analysis of Recurring increases in the base audit fee arising from regulatory pressures

Audit area for recurring additional work	Final fee 2019/20
Additional work on PPE and related valuations	£1,612
Additional work on pensions	£1,382
Additional work on review of journals	£921
Additional work in relation to the consideration of going concern	£691
<b>Total additional fee for 2019/20 (recurring in future years)</b>	<b>£4,606</b>



## 5. OUR FEES

### Analysis of One-off fee increases for 2019/20 specific issues

Additional work relating to the 2019/20 audit	Final fee 2019/20
Additional procedures to review the potential impact of the proposed remedy in the McCloud case against the pension liability disclosures, and consideration of the potential impact of the Goodwin case on pension liabilities – review of the revised disclosures for the firefighters’ scheme in respect of McCloud	£1,026
Additional procedures in relation to Material Valuation Uncertainty of the Authority’s property assets, including disclosures and the inclusion of an Emphasis of Matter paragraph in the audit report, which was subject to Consultant Partner Review	£513
Additional procedures in relation to Material Valuation Uncertainty of the Pension Fund’s property assets, including disclosures and the inclusion of an Emphasis of Matter paragraph in the audit report, which was subject to Consultant Partner Review	£513
<b>Total additional fee for 2019/20 (not recurring)</b>	<b>£2,052</b>

### Fees for other work

We confirm that we have not undertaken any non-audit services for the Authority in the year.



## 6. FORWARD LOOK

### Financial outlook

There is considerable uncertainty about the Authority's financial outlook as the Government's review of the formula for funding local authorities has been postponed until late 2021. In addition, the COVID-19 pandemic is likely to reduce revenue from local taxation from 2021/22. The Authority has prudently maintained reserves to allow it to sustain strong performance whilst managing the financial challenges it has already faced and lie ahead.

### Operational challenges

In June 2019 HMICFRS rated the Authority as 'requires improvement' in all three inspection pillars. The improvement plan addresses these areas and this is also set out in the Corporate Plan.

### Legislative / environmental changes

Following the Police and Crime Act 2017, the Government are currently consulting on ways to improve the accountability of Police and Crime Commissioners to the communities they serve, which includes examining lessons learnt from different governance models for PCC representation on fire authorities. A decision on future governance arrangements for fire authorities is expected during 2021.

### How we will work with the Authority

Our 2020/21 audit will focus on the risks that the challenges noted above present to the Authority's financial statements and ability to maintain proper arrangements for securing value for money. We have commented on the changes to the Value for Money requirements in the new Code of Audit Practice on the next page.

We will continue to support the Authority through our audit work and through our attendance at Corporate Governance Committee where we will inform the Committee about our progress on the audit, report our key findings and share our insight on any changes we are aware about in the sector. We will continue to offer accounting workshops to finance officers, and the audit team will continue to work with officers to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.



## 6. FORWARD LOOK

### Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1<sup>st</sup> April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

#### The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

#### Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released and we have considered the fee implications.



## 6. FORWARD LOOK

### Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings are being considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>





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