



Audit Completion Report

Leicester, Leicestershire and Rutland
Combined Fire Authority

Year ending 31 March 2019

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Members of the Authority
Leicester, Leicestershire and Rutland Combined Fire Authority
12 Geoff Monk Way
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13 September 2019

Dear Members

Audit Completion Report – Year ended 31 March 2019

We are pleased to present our Audit Completion Report for the year ended 31 March 2019. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum dated 27 February 2019 which we presented to the Corporate Governance Committee on 13 March 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

Significant difficulties were encountered during our audit, and this is explained further in our report. We would like to express our thanks for the assistance of your team in bringing matters to a resolution.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300.

Yours faithfully

Gavin Barker

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1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Leicestershire, Leicester and Rutland Combined Fire Authority ('the Authority') for the year ended 31 March 2019, and forms the basis for discussion at the Full Authority meeting on 27 September 2019.

The detailed scope of our work as your appointed auditor for 2018/19 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Authority's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control;
- Property, plant and equipment valuation; and
- Defined benefit liability valuations.

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B. We expect to issue our audit opinion on 27 September 2019 following approval of the financial statements by the Authority.

Value for Money conclusion

We anticipate concluding that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO. The Authority is below the threshold requiring a detailed review of your WGA submission, and we expect to be able to provide the information required by NAO at the conclusion of our audit on 27 September 2019, although this will be later than the NAO deadline of 13 September 2019.

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and to consider any objection made to the accounts. We have not received any questions or objections.

Executive summary

Significant findings

Internal control recommendations

Summary of misstatements


Value for Money conclusion

Appendices




1. EXECUTIVE SUMMARY (CONTINUED)

Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2019. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Closing Procedures		Review and closure processes, including consideration of post balance sheet events and final checks in relation to the audit of the financial statements.

Status

-  Likely to result in material adjustment or significant change to disclosures within the financial statements
-  Potential to result in material adjustment or significant change to disclosures within the financial statements
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements

If any significant issues arise in relation to the outstanding matters, we will provide the Authority with an update prior to signing the auditor's report.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in February 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set materiality at the planning stage of the audit at £947k, using a benchmark of 2% of gross operating expenditure on the surplus/deficit on the provision of services. Our final assessment of materiality, based on the financial statements and qualitative factors was £1,130k, using the same benchmark. We did not take the past service costs in relation to the McCloud judgement into account when assessing materiality as these were a one-off adjustment that would have distorted our underlying materiality calculations. We set our trivial threshold (the level under which individual errors are not communicated to the Authority) at £34k based on 3% of overall materiality.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Authority.

Delays in concluding the audit

The audit was planned to be delivered by 31 July 2019, in accordance with the requirements of the Accounts and Audit Regulations 2015.

In the event, it was not possible to deliver the audit to this deadline. The draft financial statements that were presented for audit on 31 May 2019 contained material errors and the working papers presented to support key aspects of the financial statements were inadequate. There was evidence that the financial statements had not been through a satisfactory quality assurance process. The statements included a number of clear errors and omissions. We started our audit on 3 June 2019, but on 11 June 2019 we were provided with a revised set of financial statements, although these did not address all of the errors identified.

We formally expressed our concerns on 24 June 2019 and suspended our audit work pending resolution of the issues identified.

Officers needed time to resolve the issues raised, particularly in relation to clarifying aspects of pensions accounting, and we were provided with a revised set of financial statements and improved working papers on 25 July 2019.

This has enabled us to complete the audit and report our findings to the Authority's September meeting.



1. EXECUTIVE SUMMARY (CONTINUED)

Although the audit has been difficult and there have been a large number of amendments, including material amendments, to the financial statements, it is important for Members to understand that:

- The issues arising related to the closedown process and preparation of the financial statements, including key aspects of technical accounting, and we did not identify any reporting issues in relation to the operation of the Authority's key financial systems – accounts payable, accounts receivable, payroll, general ledger, bank reconciliation or treasury management; and
- The improved working papers presented to us on 25 July 2019 fully supported the amendments reflected in the revised financial statements and confirmed that, although there were significant changes across the financial statements, these changes did not impact on the bottom-line financial position of the Authority, the level of usable reserves or the outturn position that had been reported to Members.

Additional audit fees arising from the matters arising during the audit

The scale fee for the audit set by Public Sector Audit Appointments (PSAA) is “based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.”

The scale fee set by PSAA for 2018/19 was £22,520 plus VAT (the 2017/18 scale fee was £29,247 plus VAT).

The difficulties we experienced during the audit have led to significant additional time being spent on the audit, a proportion of which we need to recover from the Authority through a fee variation. We estimate that the additional fee for our work will be in the region of £8,000 plus VAT, based on our current assessment of the work needed to complete the audit.



2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 10 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Authority's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk	Description of the risk
Management override of controls	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 there is a risk of material misstatement due to fraud on all audits.
	How we addressed this risk We addressed this risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.
	Audit conclusion Our audit work has not identified any evidence of the management override of controls.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Valuation of property, plant and equipment, investment properties and assets held for sale

Description of the risk

The Authority's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we determined there was a significant risk in this area.

How we addressed this risk

We considered the Authority's arrangements for ensuring that valuations were reasonable and we engaged our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Authority's valuer. We also assessed the competence, skills and experience of the valuer.

We also performed further audit procedures on individual assets to ensure that the basis and level of revaluation was appropriate.

Audit conclusion

Our work on Property, Plant and Equipment (PPE) identified a number of errors, which suggested a lack of understanding of the accounting treatment for fixed assets and are indicative of control issues and a lack of management checks in relation to the accounting for PPE.

The main issues identified were:

- Assets under construction had been incorrectly depreciated;
- Asset useful lives had not been correctly updated in the Fixed Asset Register in 2017/18 and this led to incorrect depreciation calculations being applied in 2018/19. The impact of this error was £107k. This is not material and has not been adjusted for this year, but it is important to make these calculations using the correct methodology in future;
- The values for individual classes of asset within PPE did not fully reconcile back to the Fixed Asset Register (FAR) or ledger although the overall total did agree. Further investigation by officers identified an asset that has been incorrectly classified as land and buildings when it should have been within Vehicles, Plant and Equipment. This has been correctly reflected in the financial statements but the FAR should be corrected so in future years all reconciliations fully balance;
- The revaluation increases recognised in the revaluation reserve and the revaluation decreases recognised in the surplus/deficit on the provision of services line were both overstated by £810k in note 15. This error occurred because the asset additions were not correctly accounted for in the revaluation reserve and had to be amended via a manual calculation. This has no impact on the overall balance in PPE but suggests a lack of checks to reconcile figures within the PPE note back to the revaluation reserve where the error was evident. This led to two further non material adjustments being identified and amended in note 24. These changes have been reflected in the final version of accounts.

Assistance needed to be provided to the fire finance team by officers from Leicester City Council in order to fully explore and resolve these issues.

The adjustments to the financial statements in relation to PPE accounting are summarised in section 4.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant Risk

Defined benefit liability valuation

Description of the risk

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. This results in an increased risk of material misstatement.

How our audit addressed this risk

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 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 an expert's report on all actuaries nationally.

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 the disclosures in the financial statements.

Audit conclusion

There are two sets of actuarial figures for the Authority, one in relation to the local government pension scheme and another in relation to firefighters. We reviewed the assumptions used by the actuary for each scheme and found these to be reasonable and within the ranges expected.

Although the actuarial calculations were reasonable, we identified that the draft financial statements did not correctly reflect the pensions information in the financial statements. It was apparent that there were material errors in accounting for pensions which were errors of principle, and a number of important disclosures had not been included or were not clearly set out. Initially, we were unable to establish whether these errors had an impact on the bottom line position of the Authority, as the pensions accounting entries were not well documented and were difficult to follow. It was also evident that the 2017/18 financial statements included material errors which would also require correction as a prior period adjustment.

Although the fire service finance team was able to correct the missing disclosures in the notes to the accounts, they did not demonstrate an understanding of how the pension figures should be reflected in the financial statements. Consequently, on 24 June 2019 we escalated our concerns on this and other issues.

Assistance was provided to the fire finance team by officers from Leicester City Council and additional support in relation to pensions accounting was obtained from another local fire authority. The revised financial statements provided to us on 25 July 2019 included the corrected pensions position. Adjustments in relation to pensions accounting relating to these issues amounted to in the region of £8m in the Comprehensive Income and Expenditure Statement in both 2017/18 and 2018/19. However, there was no impact on the bottom line financial position of the Authority and the revised working papers provided by officers gave the assurance for this which had previously been missing.

An additional material amendment of £18.6m was made in the 2018/19 disclosures relating to the impact of the McCloud legal case on pension liabilities. This adjustment resulted from a national issue and was not the result of error by the Authority. Further context to the issues relating to pensions accounting that have arisen as national considerations this year are described on pages 10 and 11.

The adjustments to the financial statements in relation to pensions accounting are summarised in section 4.

2. SIGNIFICANT FINDINGS (CONTINUED)

Management judgement

Debt impairment

Description of the management judgement

Uncertainty exists that, in the current economic climate, the Authority's provision for the impairment of doubtful debts would be sufficient.

How our audit addressed this area of management judgement

In relation to the Authority's provision for the impairment of doubtful debts we:

- reviewed the level of reported debt as at 31 March 2019 and considered the implications for any material change;
- ensured that management's methodology for calculating the provision had been consistently applied and was in line with the requirements of the Code;
- tested the collectability of both significant and a sample of other non-significant debtor balances; and
- re-performed the basis of the calculation for the impairment of debtors.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Management judgement

Minimum revenue provision (MRP)

Description of the management judgement

Local authorities are normally required each year to set aside some of their revenues as a provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements, by reference to the prior year's closing Capital Financing Requirement. The amount to be set aside each year is not prescribed although an overarching principle of prudence is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the Authority is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised in determining the level of its prudent provision.

How our audit addressed this area of management judgement

In relation to the Authority's provision for minimum revenue provision (MRP) we:

- reviewed the Authority's MRP policy to ensure that it has been developed with regard to the statutory guidance;
- assessed whether the provision had been calculated and recorded in accordance with the Authority's policy;
- assessed whether the amount provided for the period was appropriate, taking into account the Authority's Capital Financing Requirement; and
- confirmed that any charge had been accounted for in accordance with the Code.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Authority's accounting practices

We have reviewed the Authority's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Authority's circumstances.

Draft accounts were published for the Authority by the statutory deadline of 31 May 2019.

As has been highlighted earlier in this report, however, the draft financial statements that were presented for audit contained material errors and the working papers presented to support key aspects of the financial statements were inadequate. We would highlight the following key areas for improvement:

- Including all adjustments to the financial statements in the ledger to clearly demonstrate any year end adjustments (in the 2018/19 accounts, some adjustments were made outside of the ledger as manual adjustments and were not clearly documented);
- providing clear working papers that show how the ledger (and any manual adjustments) are reflected in the primary financial statements (we were not provided with this form of mapping until 25 July 2019, meaning that our early work was hampered by a lack of clarity in relation to how and where transactions were reflected in the financial statements);
- Ensuring the financial statements prepared by 31 May each year are complete and that further officer amendments are not required after that date (in the 2018/19 audit, we were provided with an updated set of financial statements on 11 June 2019, eight days after we had started our work); and
- Improvements in accounting for the technical aspects of pensions and property, plant and equipment valuations (as discussed on pages 7 and 8) – the fire service finance team would appear to need some external support in key aspects of these technical areas.

We are satisfied that the revised financial statements presented to Members for approval have addressed the material errors identified as part of the audit process and that the improved working papers which we were provided with on 25 July 2019 now support the revised financial statements.

Significant matters discussed with management

Two separate sets of significant matters were discussed with management during the course of the audit:

- The local issues relating to the difficulties we experienced with the draft financial statements (this is addressed in the next section on significant difficulties experienced during the audit); and
- The national issues relating to pensions, in particular, those arising in relation to the McCloud judgement, which are described immediately below.

National issues relating to pensions

There have been significant issues this year relating to accounting for pensions. These issues are not specific to the Authority, but are national issues impacting on all local government and related bodies, including police and fire. There have been three issues, but the most significant issue has been the impact of what is known as the McCloud judgement.

The nature and impact of the McCloud judgement relates to claims of discrimination in respect of protections offered to some, but not all, pension scheme members as part of reforms to public sector pensions. In December 2018, the Court of Appeal ruled in a test case that this did amount to unlawful discrimination. At the time the Authority was producing its draft financial statements, the Government intended to appeal to the Supreme Court and the outcome was uncertain.

During the audit period, the Government was not granted leave to appeal, meaning that some form of restitution across all public sector pension schemes became more certain, requiring the estimated impact of this to be reflected in the pension disclosures in the financial statements, subject to materiality considerations.



2. SIGNIFICANT FINDINGS (CONTINUED)

The other two issues have been:

- Guaranteed Minimum Pension (GMP) indexation and equalisation, which relate to the move to a single-tier new State Pension and equalisation of the GMP benefits between males and females, which has been accounted for to varying degrees by each actuary; and
- Asset values – this issue relates only to the Local Government Pension Scheme (which is funded) and not to the firefighters' scheme (which is not funded). The issue is whether the estimation of assets by the actuary using asset values at the end of December 2018 / end of January 2019 was accurate, given the level of returns in the final quarter of 2018/19.

For each of these issues, our approach was to suggest that the Authority engaged with the actuary of each scheme, to assess the potential impact of these issues, to see whether the impact is material, and if so, to make amendments to the financial statements.

The outcomes of this process were:

- The impact of McCloud in relation to the firefighters scheme, which was material, has been reflected in amendments in the financial statements. The amendments have resulted in an increase in fire service expenditure (as a past service cost) and the pension fund liability of £16.8m;
- The actuary for the firefighters' scheme has confirmed that they believe it is not appropriate to make a further amendment for GMP;
- For the local government pension scheme, in relation to GMP an assessment was made at the outset that this would not be material (£140k). For McCloud, the actuary provided an updated estimate that the impact would be £401k. As the impact of each issue on their own is below materiality and the combined impact of both issues is also not material, no adjustment to the financial statements has been made. As these issues relate to the refinement of an estimate rather than an error, they have not been reported as unadjusted misstatements; and
- The impact of the change in asset values with respect to the local government pension scheme was assessed as £612k and the financial statements were amended for this change in estimate.

None of these issues impact on the Authority in terms of a bottom-line impact on the General Fund balance, although in practice, both McCloud and GMP will place upward pressure on employers pension contributions reflecting an increased pension liability to recover over the life of the scheme.

Significant difficulties during the audit

During the course of the audit we did encounter significant difficulties.

The draft financial statements that were presented for audit on 31 May 2019 contained material errors and the working papers presented to support key aspects of the financial statements were inadequate. Some errors were identified by the Authority and we received a revised set of financial statements on the 11 June 2019 with inadequate explanation for the changes and no revised working papers. By this time we had been on site since the 3 June 2019. In addition, we struggled in our initial site visit to obtain all of the information needed in a timely and effective way, meaning that progress slowed, time was wasted and some aspects of the work could not be addressed efficiently and effectively. We formally expressed our concerns on 24 June 2019 and suspended our audit work pending resolution of the issues identified.

Considerable additional senior management time from within the audit team has been involved in working through the matters arising, and following up to ensure that all issues have been satisfactorily addressed. We recognise this process also involved significant time being spent by the Treasurer and her team.



2. SIGNIFICANT FINDINGS (CONTINUED)

Officers needed time to resolve the issues raised, particularly in relation to clarifying aspects of pensions accounting, and we were provided with a revised set of financial statements and improved working papers on 25 July 2019, which we are satisfied address the issues we raised.

Whilst the situation was difficult for both ourselves as auditors and for the Authority's officers, we are grateful for the co-operation we received from officers at both the Authority and at Leicester City Council to bring matters to a satisfactory conclusion.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability 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 powers as part of our 2018/19 audit.

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 have not received any questions or objections.



3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	2018/19 issues identified	2017/18 issues reported *
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	3	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	0	0
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0	0

* NB. Mazars were not your auditor in 2017/18, but we note from last year's ISA260 report that the previous auditor did not make any internal control recommendations in relation to the 2017/18 audit.

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Significant deficiencies in internal control – Level 1

Preparation of the financial statements – Level 1

Description of deficiency

The draft financial statements that were presented for audit on 31 May 2019 contained material errors and the working papers presented to support key aspects of the financial statements were inadequate.

There was evidence that the financial statements had not been through a satisfactory quality assurance process. The statements included a number of clear errors and omissions. These included:

- Clear problems on the face of the Comprehensive Income and Expenditure Statement that had not been considered;
- Missing and duplicated information; and
- The omission of a key note in relation to the 2018/19 Firefighters Pension Scheme and a number of other inconsistencies and lack of clarity in the pension notes.

In addition to this, the working papers supporting the financial statements did not agree to the ledger, and note 14, which is meant to provide an analysis of income and expenditure could not be related to the content of the Comprehensive Income and Expenditure Statement.

We started our audit on 3 June 2019, but on 11 June 2019 we were provided with a revised set of financial statements, although these did not address all of the issues identified. There was limited explanation of the changes.

The working papers provided for the final accounts audit were not in line with the working paper protocol we had set out for officers. Some working papers were not provided while others were difficult to follow or not revised following amendment to the original accounts. The main internal control issue was the difficulty in mapping the ledger to the financial statements with some income being found in reserves adjustments rather than on an income code and some adjustments not being made in the ledger, but put through the financial statements as manual adjustments which were not clearly documented or supported. We found that there was a lack of responsiveness to the issues we raised in the first two weeks of our audit which created significant difficulties and contributed to overruns of the time taken to carry out our work.

The errors identified above and the provision of a revised set of financial statements eight days into the audit, indicated a lack of control of the accounts closedown process and the financial statements did not appear to have been subject to adequate levels of management checks and review.

Potential effects

The Treasurer and the Authority do not have the required level of assurance or confidence in the financial statements being prepared. The financial statements contain material errors that need to be corrected. Additional work needs to be carried out by officers to address the deficiencies and respond to audit queries, and there are resultant audit time overruns and additional audit fees. The audit timetable required by the Accounts and Audit Regulations 2015 can not be met.

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Significant deficiencies in internal control – Level 1

Preparation of the financial statements – Level 1 (continued)

Recommendations

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;
- Implementation of quality assurance processes to ensure the risk of material error in the draft financial statements is minimised.

Management response

The Authority will be working to review the process currently in place to compile the Statement of Accounts, including assessing skills gaps and ensuring the correct quality assurance process.

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Significant deficiencies in internal control – Level 1

Accounting for Property, Plant and Equipment (PPE) – Level 1

Description of deficiency

The Authority has not correctly accounted for all aspects of property, plant and equipment (PPE).

The PPE note did not correctly reconcile to the Fixed Asset Register (FAR) by asset category, the depreciation charge was incorrectly calculated as a result of failing to update asset useful lives correctly, and incorrectly applied to assets under construction and the revaluation figures posted to the note were overstated as a result of additions not being posted correctly to the revaluation reserve.

Potential effects

Potential for material misstatements in accounting for PPE.

Recommendation

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.

Management response

The Authority will review the current process for completing the PPE entries, along with incorporating adequate quality assurance going forward.

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Significant deficiencies in internal control – Level 1

Accounting for Pensions – Level 1

Description of deficiency

The Authority has not correctly accounted for all aspects pensions accounting.

It was apparent that there were material errors in accounting for pensions which were errors of principle, and a number of important disclosures had not been included or were not clearly set out.

Although the fire service finance team was able to correct the missing disclosures in the notes to the accounts, they did not demonstrate an understanding of how the pension figures should be reflected in the financial statements.

Assistance was provided to the fire finance team by officers from Leicester City Council and additional support in relation to pensions accounting was obtained from another local fire authority. The revised financial statements provided to us on 25 July 2019 included the corrected pensions position. Adjustments in relation to pensions accounting relating to these issues amounted to in the region of £8m in the Comprehensive Income and Expenditure Statement in both 2017/18 and 2018/19. However, there was no impact on the bottom line financial position of the Authority and the revised working papers provided by officers gave the assurance for this which had previously been missing.

Potential effects

Potential for material misstatements in accounting for pensions.

Recommendation

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

Management response

The Authority will review the current process for compiling the pension entries and notes, along with incorporating a better quality assurance process.

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £34,000 for the Authority.

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2018/19

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr. Balance Sheet - PPE Cr: CIES – Depreciation charges			131	131

We identified two instances where depreciation had been calculated incorrectly. Assets under construction had been depreciated in error. This involved two assets with a total depreciation charge of £24k. We also identified that the asset useful lives had not been correctly updated in 2017/18 in line with the valuer's report. Further testing of all buildings by officers identified a total overstatement of depreciation charges relating to useful asset lives in 2018/19 of £107k. The total overstatement of depreciation was therefore £131k. Given the actual and extrapolated errors are not material, no further work has been undertaken and management has decided not to adjust on this basis.

Total unadjusted misstatements			131	131
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4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Adjusted misstatements 2018/19

	Comprehensive Income and Expenditure Statement and MIRS		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr: Cost of Services Expenditure	14,614			
Dr: Cost of Services Income	13,248			
Cr: Finance and Investment Income		81		
Cr: Taxation and Government Grant – NNDR		761		
Cr: Taxation and Government Grant – Pensions Top Up Grant Funded by Home Office		8,422		
Cr: MIRS - Adjustment between accounting basis and funding basis		18,600		
Dr: Pension reserve – Past service cost (McCloud)			18,600	
Cr: Pension liability – Past service cost (McCloud)				18,600
Dr: Pensions Reserve – Re-measurement Adjustment			612	
Cr: Pensions Liability– Re-measurement Adjustment				612

The corrections to the financial statements are very complex.

The adjustments in the CIES total £27.862m.

The £81k and £761k adjustments in Finance and Investment Income and Taxation and Government Grant – NNDR are a reclassification of income between the cost of services lines and the lines in the surplus or deficit on provision of services. In effect, this income was initially classified incorrectly.

Broadly speaking, the £8.422m adjustment is made to reflect the amount of pension costs incurred through the separate Firefighters' Pension Fund Account that is funded by the Home Office.

The corrections above (£81k, £761k and £8.422m) relate to errors in the Authority's draft financial statements.

The remaining adjustments relate to national issues highlighted on pages 10 and 11 of this report. The main adjustment is the McCloud adjustment (£18,600k), and the other adjustment relates to pension asset values (£612k).

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Adjusted misstatements 2018/19 (continued)

In view of the complexity of the adjustments in the 2018/19 financial statements, we have summarised the changes in each of the primary statements in the tables that follow.

The tables below summarise the differences in the main financial statements between the draft version of the statements certified on 31 May 2019, and the final version presented to the Authority for approval at its meeting on 27 September 2019.

The first table summarises the changes in the Comprehensive Income and Expenditure Statement.

C Comprehensive Income and Expenditure Statement	DRAFT 31 May 2019 £000's	FINAL 27 Sept 2019 £000's	CHANGE
– Cost of Services: Gross Expenditure	44,227	58,841	Increase expenditure of £14,614k
– Cost of Services: Gross Income	(16,094)	(2,846)	Decrease income of £13,248k
Net Cost of Services	28,133	55,995	Increase net expenditure of £27,862k
– Financing and Investment Income	(115)	(196)	Increase income of £81k
– Taxation and Non-Specific Grant Income	(34,581)	(43,764)	Increase income of £9,183k
(Surplus) or Deficit on Provision of Services	5,740	24,338	Increase deficit of £18,598k
– Re-measurement of the Net Defined Benefit Liability	14,857	15,469	Increase re-measurement cost of £612k
Comprehensive Income and Expenditure Statement – Total Comprehensive Income and Expenditure	20,593	39,803	Increase net cost position of £19,210k

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Adjusted misstatements 2018/19 (continued)

The second table summarises the changes in the Movement in Reserves Statement.

Movement in Reserves Statement	DRAFT 31 May 2019 £000's	FINAL 27 Sept 2019 £000's	CHANGE
Balance Brought Forward at 31 March 2018			
- General Fund Balance	2,247	2,247	No change
- Earmarked Reserves	11,599	11,599	No change
- Unusable Reserves	(427,435)	(427,435)	No Change
Total Comprehensive Expenditure and Income			
- General Fund Balance	(5,740)	(24,338)	Increased Cost of £18,598K
- Unusable Reserves	(14,853)	(15,465)	Increased Cost of £612k
TOTAL	(20,593)	(39,803)	Increased Cost of £19,210k
Adjustments between the Accounting Basis and Funding Basis under Regulations			
- General Fund Balance	6,952	25,552	Increased Reversal of Cost of £18,600k
- Unusable Reserves	(6,952)	(25,552)	Increased Unusable Reserves of £18,600k
Transfers to / (from) Earmarked Reserves			
- General Fund Balance	(849)	(849)	No change
- Earmarked Reserves	849	849	No change
Balance at 31 March 2019 Carried Forward			
- General Fund Balance	2,610	2,612	Increased reserve of £2k
- Earmarked Reserves	12,448	12,448	No change
- Unusable Reserves	(449,240)	(468,452)	Increase unusable reserve of £19,212k
TOTAL	(434,182)	(453,392)	Increase of £19,210k in Unusable Reserves

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Adjusted misstatements 2018/19 (continued)

The third and fourth tables summarise the changes in the Balance Sheet and Cash Flow Statement respectively.

Balance Sheet	DRAFT 31 May 2019 £000's	FINAL 27 Sept 2019 £000's	CHANGE
Net Pensions Liability	(481,432)	(500,644)	Increase in net pensions liability of £19,212k
Usable Reserves	15,059	15,060	Increase in Usable Reserves of £1k
Unusable Reserves	(449,239)	(468,452)	Increase in Unusable Reserves of £19,213k

Cash Flow Statement	DRAFT 31 May 2019 £000's	FINAL 27 Sept 2019 £000's	CHANGE
Cash Flow Statement Net surplus/(deficit) on the provision of services	(5,740)	(24,388)	Decrease of £18,648k
Cash Flow Statement Adjustments to the surplus or deficit on the provision of services for non-cash movements	8,654	28,053	Increase of £19,399k
Cash Flow Statement Net Cash flows from Investing Activities	(1,847)	(1,845)	Decrease of £2k
Cash Flow Statement Net cash flows from Financing Activities	(483)	(1,286)	Increase of £803k

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Adjusted misstatements 2018/19 (continued)

Disclosure amendments

We identified a small number of arithmetic, rounding and other minor errors in the financial statements. There are no material unadjusted disclosure errors.

The main changes in the disclosures in the financial statements made between the draft version of the statements certified on 31 May 2019, and the final version presented to the Authority for approval at its meeting on 27 September 2019 are summarised below:

- Note 2, the Expenditure and Funding Analysis has changed significantly to reflect the changes made to the primary statements, mainly as they relate to PPE and pensions;
- Note 8, Note to the Expenditure and Funding Analysis has changed significantly for the same reasons as Note 2;
- Note 9, Adjustments between the Accounting Basis and Funding Basis under Regulations has also changed significantly to reflect the changes made to the primary statements; in the original draft there was also a duplicated 2017/18 page in error which has now been removed;
- Note 12, Financing and Investment Income has been amended to reflect a reclassification of income;
- Note 13, Taxation and Non-Specific Grant Income and Expenditure has been amended to reflect significant changes to the classification of income made through the adjustments to the main financial statements;
- Note 14, Expenditure and Income Analysed By Nature is now fully reconciled to the Comprehensive Income and Expenditure Statement; this was not the case in the draft statements and the original note could not be agreed to any working papers;
- Additional text has been added to Note 15, Property, Plant and Equipment to explain the valuation processes;
- Note 17, Financial Instruments has been amended to reflect corrections identified;
- Note 22, Provisions has been amended to reflect the split of short and long term provisions in the Balance Sheet;
- Note 23, Usable Reserves has been amended for minor rounding differences;
- Note 24, Unusable reserves has been amended to reflect the changes in pensions included in the adjustments made to the primary statements;
- Notes 25, 26 and 27 in relation to the Cash Flow Statements include amendments to reflect changes made in the financial statements;
- There are some relatively minor clarifications added to Note 30, Officers Remuneration;
- Note 32 on Grant Income has been amended to reflect that this is income in cost of services rather than taxation and non-specific grant income;
- Note 34 includes some minor changes in relation to capital financing;
- Note 35, Leases has been amended to show the correct minimum lease payment later than 5 years for the prior year (changed from £701k to £101k);
- Note 36, Termination Benefits changed to show the correct numbers of exit packages in the year;
- Note 37, Defined Benefit Pension Schemes; a number of significant changes; the Firefighters Pension Scheme (FFPS) 2018/19 note is now included (originally excluded in error); the principal assumptions for the FFPS were added into the note (originally only the LGPS scheme was shown); other changes were made to reflect the national issues noted earlier in this report; and
- Note 38, Contingent Liabilities were amended for the updated position relating to the McCloud judgement.

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Adjusted misstatements relating to the Prior Period 2017/18

The table below summarises the differences in the Comprehensive Income and Expenditure Statement for 2017/18 arising from the issues identified in this year's audit in relation to pensions accounting. These changes have been made between the draft version of the statements certified on 31 May 2019, and the final version presented to the Authority for approval at its meeting on 27 September 2019.

C Comprehensive Income and Expenditure Statement	DRAFT 31 May 2019 £000's	FINAL 27 Sept 2019 £000's	CHANGE
– Cost of Services: Gross Expenditure	34,757	40,173	Increase expenditure of £5,416k
– Cost of Services: Gross Income	(6,280)	(3,668)	Decrease income of £2,612k
Net Cost of Services	28,477	36,505	Increase net expenditure of £8,028k
– Taxation and Non-Specific Grant Income	(34,066)	(42,094)	Increase income of £8,028k
(Surplus) or Deficit on Provision of Services	6,838	6,838	No change

5. VALUE FOR MONEY CONCLUSION

Introduction

We are required to form a conclusion as to 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 approach

Our overall approach is set out in our Audit Strategy Memorandum and involves a detailed risk assessment at the planning stage to identify whether or not a Value for Money (VFM) risk exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Authority being inadequate. As set out in our Audit Strategy Memorandum, for the 2018/19 financial year we identified one significant audit risks in relation to VFM. The work we carried out in relation to this risk is shown on page 25.

Based on the work performed, we are satisfied that the Authority's arrangements are adequate.

Matters kept under review

Before drawing our conclusion, we have:

- Updated our risk assessment for any new or emerging issues through discussions with management and updating our review of committee reports;
- Reviewed the Authority's Annual Governance Statement for any significant issues; and
- Considered the Authority's financial outturn position as presented in the financial statements.

From the work performed, no new significant VFM risks were identified and we have no matters to report.

Our overall Value for Money conclusion

We have completed our procedures and, as set out in our draft auditor's report included at Appendix B, we intend to issue an unqualified Value for Money conclusion for the 2018/19 financial year.



VALUE FOR MONEY: SIGNIFICANT AUDIT RISK

Delivery of Budgets and Financial Resilience Significant Risk

The continual pressures on public sector finances are well documented and led to another challenging budget setting process for 2018/19. The Authority set a balanced budget on 7 February 2018.

The month 8 forecast showed that the Authority may deliver a £34k overspend against its revenue budget and a £232k underspend on capital. The revenue deficit is derived from an increase in expenditure of £298k and an increase in income of £264k. As the planned overspend was small no action was being proposed by the Authority at that stage, although ongoing monitoring would occur until the year end.

There will be significant changes in Local Government finances over the next few years, which will culminate in a major change in the way Local Government is financed from 2020/21 onwards. These include the 2019 Spending Review, the Fair Funding Review and the introduction of 75% local retention of business rates (up from 50% retention). At that moment the Authority did not know if they would gain or lose under these changes and the ongoing funding position was very uncertain from 2020/21.

Another potential pressure was the ongoing firefighters pay award which was budgeted at 2%. Any increases to this award (which potentially could go up to 15% as agreed in Scotland) would impact significantly on the Authority. It was assumed any future increases would be met by the Government. If not each 1% increase would cost the Authority £200k per annum and would not be affordable under the current budget plans.

As a result, the need for savings (or income generation) would continue to have a significant impact on the Authority's ongoing financial resilience and reduce the burden on the need to borrow or utilise reserves to balance any future budget deficits.

Value for Money Arrangements Affected: Deploying resources in a sustainable manner Our Response

We critically reviewed whether the Authority had arrangements in place to ensure financial resilience, specifically that the Medium Term Financial Plan (MTFP) had duly taken into consideration the latest available information on factors such as, funding reductions, business rate reform, fair funding, salary and general inflation, demand pressures and restructuring costs. We also reviewed the Authority's progress against planned savings in 2018/19 and the utilisation of reserves in the outturn report compared to the original budget. We also reviewed the findings from the recent HMICFRS inspection review.

Our findings

2018/19 Outturn

The outturn presented to the Authority on 19 June 2019 reported a net revenue budget under-spend of £0.609m on services in 2018/19 against the adjusted budget. This enabled £0.463m to be transferred to the management of change reserves to further support the Integrated risk Management Plan and help implement any changes required as a result of the HMICFRS inspection report. The remaining £0.146m has been carried forward to support 2019/20 expenditure. The main reason for the increased surplus has been a £0.317m increase in grant, secondment and other income while expenditure reduced by £0.292m mainly in a reduction in supplies and services and employee costs. Achieving a higher surplus above the planned year end position and the month 8 position demonstrates the Authority's ability to deliver financial performance within planned control measures, including the delivery of savings and services in line with the transformation plan. The capital programme underspent by £1.465m of which £1.416m has been carried forward to 2019/20.



VALUE FOR MONEY: SIGNIFICANT AUDIT RISK

Medium Term Financial Plan (MTFP)

The Authority's MTFP was approved by the Authority on 6 February 2019 providing indicative financial projections through to 2021/22. The plan has been developed by looking to constrain expenditure while identifying efficiencies and increasing income. The financial position beyond 2019/20 is largely unknown but the Authority have identified the two key risks they face financially as being pay (the settlement for 2018/19 has not yet been finalised or agreed) and expected increases in the employers contributions to the Firefighters Pension Scheme. The CFA have budgeted for a 1% pay rise so any changes above this will impact on the budget. It is anticipated any additional 1% increase will cost the authority an additional £0.2m and will have to be funded from additional savings. The MTFP also identifies that setting council tax at the third lowest level in the country reduces the Authority's available income by £3.8m per annum (when compared to the average increase across the country). The MTFP shows that earlier years' budgets included an anticipated saving of £250,000 in 2018/19, rising to £450,000 by 2019/20, from efficiencies in management, support staff, premises and fleet. The target has been all but achieved, with a further £87,000 still required for 2019/20. It is expected that this will be delivered by means of a number of minor savings. Further work is required to firm up specific saving plans for 2020/21 and beyond and the outcome of the Fair Funding review will help inform the Authority's plans. As with any other Authority the ongoing monitoring of budgets and planned savings is crucial in ensuring the level of reserves are maintained and the MTFP is achieved, this is especially important given the fact that the budget from 2019/20 onwards is sensitive to small changes in pay and pension costs. At the time of reporting the future funding position remains uncertain making it very difficult for the Authority to take a medium term view.

General Reserves

The Authority's planned use of general reserves ensures the MTFP remains in balance. The Authority recognises the key issue is the management of general reserves to a level that ensures it remains financially resilient and able to deliver sustainable services, whilst insulating it against significant financial risk. Without ongoing monitoring and action, the Authority's reserves may deteriorate. Over the three years to 2021/22, the minimum level of general fund reserves is due to remain at £2.0m each year to cover any unexpected expenditure and it is over this period, we judge it most relevant to base our Value for Money Conclusion on. The general fund and earmarked reserves as at the end of March 2019 are £2.612m and £12.448m respectively. The MTFP does not show the planned reserve balances from 2019/20 although the MTFP suggests a balanced budget is set without the need to utilise reserves until 2021/2022. As part of a MTFP we would expect to see the utilisation of reserves shown for the next few years rather than just concentrate on the year ahead.

At the time of reporting the future funding position remains uncertain making it very difficult for the Authority to take a medium term view. However, the Authority's reserves position means it is relatively well placed to manage any immediate challenges.

HMICFRS inspection

The Authority has been subject to an inspection by HM Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS). The inspection report was published on 20 June 2019 and the ratings were:

- Effectiveness – Requires Improvement;
- Efficiency – Requires Improvement; and
- People – Requires Improvement.

The Authority is developing an action plan, focusing its response on the aspects of the inspection requiring improvement. Clearly, implementing the action plan will be a key area of focus for the Authority in the coming year.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

From:
Treasurer
Leicester, Leicestershire and Rutland Combined Fire Authority
12 Geoff Monk Way
Birstall
Leicester
LE4 3BU

To:
Mr Gavin Barker
Director
Mazars LLP
Salvus House
Aykley Heads
Durham DH1 5TS

Date: 27 September 2019

Dear Gavin

Leicester, Leicestershire and Rutland Combined Fire Authority - audit for year ended 31 March 2019

This representation letter is provided in connection with your audit of the financial statements of Leicester, Leicestershire and Rutland Combined Fire Authority for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Authority you determined it was necessary to contact in order to obtain audit evidence.

I confirm as s151 officer that I have taken all the necessary steps to make you aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Fire Authority and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Authority's financial position, financial performance and cash flows.

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DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Authority in making accounting estimates, including those measured at current or fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Authority have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Authority has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as s151 Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error. I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Authority involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Authority's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Charges on assets

All the Authority's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

(CONTINUED)

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Authority and will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is included below.

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr. Balance Sheet - PPE			131	
Cr: CIES – Depreciation charges				131

We identified two instances where depreciation had been calculated incorrectly. Assets under construction had been depreciated in error. This involved two assets with a total depreciation charge of £24k. We also identified that the asset useful lives had not been correctly updated in 2017/18 in line with the valuer's report. Further testing of all buildings by officers identified a total overstatement of depreciation charges relating to useful asset lives in 2018/19 of £107k. The total overstatement of depreciation was therefore £131k. Given the actual and extrapolated errors are not material, no further work has been undertaken and management has decided not to adjust on this basis.

Total unadjusted misstatements			131	131
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Yours faithfully

s151 officer / Treasurer

Date..... 27 September 2019

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DRAFT AUDITOR'S REPORT

Independent auditor's report to the members of Leicester, Leicestershire and Rutland Combined Fire Authority

Report on the financial statements

Opinion

We have audited the financial statements of Leicester, Leicestershire and Rutland Combined Fire Authority ('the Authority') for the year ended 31 March 2019, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Firefighters' Pension Fund Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of Leicester, Leicestershire and Rutland Combined Fire Authority as at 31st March 2019 and of the Authority's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Treasurer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Treasurer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Treasurer is also responsible for such internal control as the Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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DRAFT AUDITOR'S REPORT (CONTINUED)

The Treasurer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Authority is informed of the intention for dissolution without transfer of services or function to another entity. The Treasurer is responsible for assessing each year whether or not it is appropriate for the Authority to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Authority's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on Leicester, Leicestershire and Rutland Combined Fire Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Leicester, Leicestershire and Rutland Combined Fire Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to 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. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

APPENDIX B

DRAFT AUDITOR'S REPORT (CONTINUED)

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Use of the audit report

This report is made solely to the members of Leicester, Leicestershire and Rutland Combined Fire Authority, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Certificate

We certify that we have completed the audit of Leicester, Leicestershire and Rutland Combined Fire Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[Signature]

Gavin Barker
Director

For and on behalf of Mazars LLP
Salvus House
Aykley Heads
Durham

27 September 2019

Executive summary

Significant findings

Internal control
recommendations

Summary of
misstatements

Value for Money
conclusion

Appendices

APPENDIX C INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

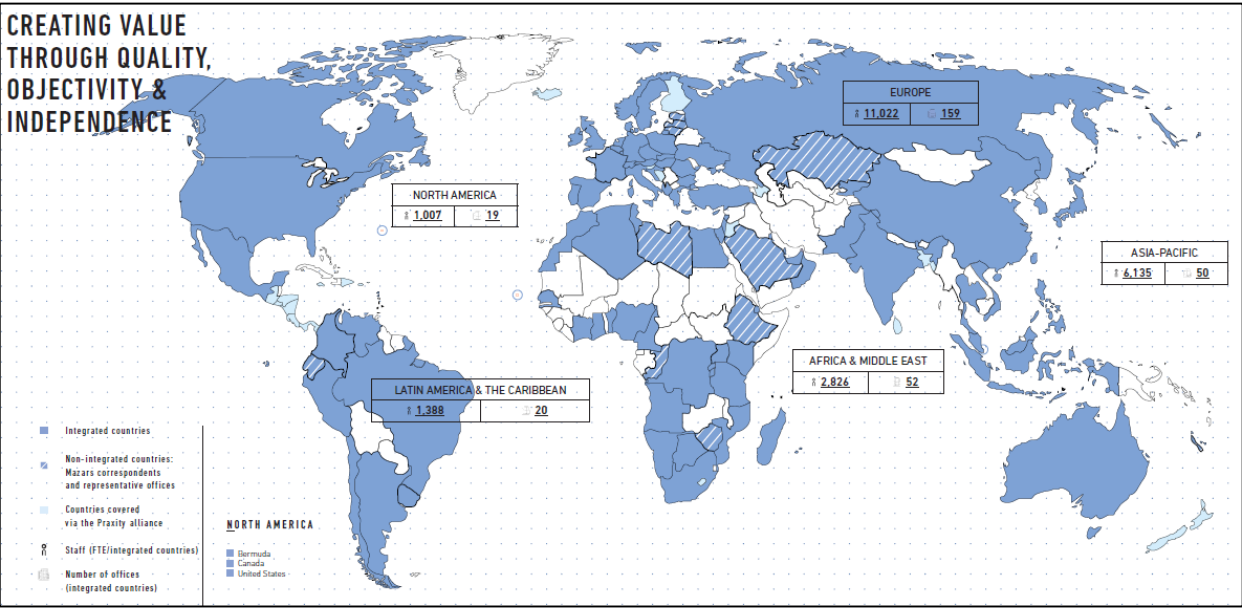


MAZARS AT A GLANCE

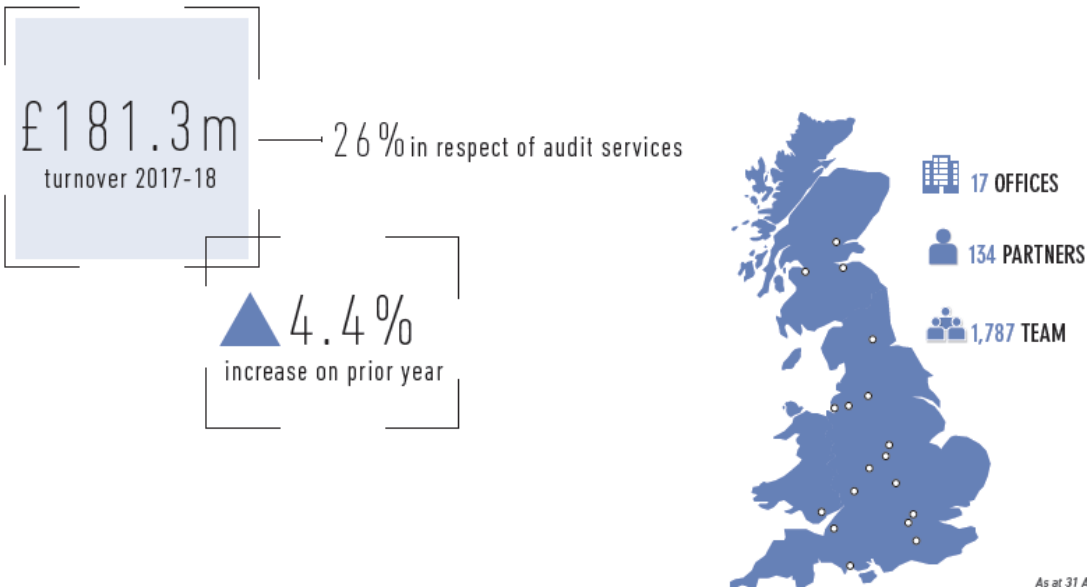
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Mazars in the UK



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