

# Annual Audit Letter

North Yorkshire Police, Fire and Crime  
Commissioner Fire and Rescue Authority

Year ending 31 March 2019





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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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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 North Yorkshire Police, Fire and Crime Commissioner Fire and Rescue Authority (the Authority) for the year ended 31 March 2019. 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 30 July 2019 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 2019 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 2018/19.</li></ul>
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 30 July 2019 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 2019.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 30 July 2019 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 financial position as at 31 March 2019 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, issued to the Authority on 30 July 2019, stated that, in our view, the financial statements give a true and fair view of the Authority's financial position as at 31 March 2019 and of its financial performance for the year then ended.

### 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 Independent Audit Committee. 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 2019:

Financial statement materiality	Our financial statement materiality is based on 2% of gross operating expenditure	£944,000
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£28,000
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - senior officers remuneration - members allowances	£42,850 £12,500

## 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 Independent Audit 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>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.</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 work provided the assurance we sought and did not highlight any issues which needed bringing to the Authority's attention.</p>
<p><b>Property, Plant and Equipment – property 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 land and buildings.</p> <p>Although the Authority uses an external valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of land and buildings due to the significant judgements and number of variables involved in providing revaluations.</p>	<p>We addressed this through:</p> <ul style="list-style-type: none"> <li>review of accounting entries to ensure revaluations and impairments are correctly reflected in the financial statements;</li> <li>review of the underlying data provided to the external valuers by the Authority; and</li> <li>assessing the competency and objectivity the external expert and reviewing their methodologies and findings.</li> </ul>	<p>Our work provided the assurance we sought and did not highlight any issues which needed bringing to the Authority's attention.</p>
<p><b>Defined pension 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. This results in an increased risk of material misstatement.</p>	<p>We addressed this through:</p> <ul style="list-style-type: none"> <li>discussion with key contacts over any significant changes to the pension estimates prior to the preparation of the financial statements.</li> <li>considering the reasonableness of the Actuary's output, referring to our experts report on all actuaries nationally which is commissioned annually by the National Audit Office.</li> </ul>	<p>Our work has provided the assurance sought. The adjusted errors relating to pension assets and liabilities are national issues relating to legal cases and the timing of information obtained from the actuary. These were described in our audit completion report.</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. We have not identified any deficiencies in internal control as part of our audit.

### 3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

#### Our approach to Value for Money

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
- Working with partners and other third parties

Our auditor's report, issued to the Authority on 30 July 2019, 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 2019.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>The arrangements that were in place prior to the change in governance in November 2018 have been replaced by a new Corporate Governance Framework primarily through the office of the Police, Fire and Crime Commissioner (PFCC) for North Yorkshire.</p> <p>An Independent Audit Committee has been established to assist the PFCC in discharging her statutory responsibilities, its functions include:</p> <ul style="list-style-type: none"> <li>• Providing assurance on the adequacy and effectiveness of internal control and risk management;</li> <li>• Overseeing the effectiveness of the framework in place for ensuring compliance with statutory requirements;</li> <li>• Scrutinising financial and non-financial performance;</li> <li>• Monitoring of governance within the organisation; and</li> <li>• Overseeing the financial reporting process.</li> </ul> <p>These arrangements need time to be embedded into the working practices of the new organisation.</p>	Yes

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### 3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<ul style="list-style-type: none"> <li>• Arrangements are in place to monitor, review and report financial performance during the year.</li> <li>• There is a Medium Term Plan (MTFP), which is reviewed and updated annually as part of the detailed annual budget setting process. This sets out the expected resources available for the next four years and levels of savings required.</li> <li>• Latest MTFP identified a resourcing gap which is to be met in the short term through the use of reserves.</li> <li>• Integrated Risk Management Plan (IRMP) is in place, this sets out how the Authority plans to deliver services to the local population up to 2020/21. The updated MTFP identified a recurring budget gap and therefore work is on-going on a new IRMP to ensure that the service can continue to manage its service delivery risks in an affordable way.</li> <li>• Capital and estate programmes are in place.</li> <li>• Workforce planning is in place.</li> </ul>	Yes
Working with partners and other third parties	<p>The Authority continues to work with a range of partners including:</p> <ul style="list-style-type: none"> <li>• Working closely with North Yorkshire Police under the new governance structure.</li> <li>• Joint fire and police transport and logistics depot.</li> <li>• Agreement with Cornwall Fire Authority to provide reciprocal support cover for control room operations.</li> <li>• Partnerships with NHS England and Yorkshire Ambulance Service.</li> <li>• North Yorkshire County Council for the provision of some finance functions, treasury management and procurement support.</li> <li>• Part of the Authority's estate is being delivered under a PFI contract.</li> </ul>	Yes

### 3. VALUE FOR MONEY CONCLUSION

#### Significant Value for Money 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 Authority being inadequate. In our Audit Strategy Memorandum, we reported that we had identified a significant Value for Money risk. The work we carried out in relation to this significant risk is outlined below.

Risk	Work undertaken	Conclusion
<p><b>Risk heading</b></p> <p><b>Sustainable resource deployment</b></p> <p>The service is facing significant financial challenges with an identified annual budget short fall of around £1m. In the short term this is being met through the use of reserves, this is however unsustainable going forward.</p>	<p>We addressed this risk through</p> <ul style="list-style-type: none"> <li>• Review of the current Medium Term Financial Plan (MTFP)</li> <li>• Discussion with officers; and</li> <li>• Review of progress on addressing the identified funding gap.</li> </ul>	<p>The previous MTFP published in February 2018 identified a recurring funding of imbalance of £2.5m by 2022/23. Detailed work has been undertaken by management and this gap has now been reduced significantly.</p> <p>The revised 2019/20 to 2022/23 MTFP published by the Police, Fire and Crime Commissioner in February 2019 identified a number of cost pressures and funding gaps which are to be met in the short term through the use of contributions from reserves of £1.1 million in 2019/20 and £0.9 million in 2020/21, which is less than had previously been reported.</p> <p>Management recognise that longer term this financial position is unsustainable and further detailed plans are being developed with the aim of bringing the Authority back to a recurring balanced financial position by 2021/22.</p> <p>The use of reserves to support the longer term financial position is not sustainable. If additional efficiency savings can not be identified, then the Authority will face a number of potentially difficult operational decisions if it is to ensure the longer term financial stability of the fire service.</p> <p>In our view, the Authority is entering a critical period in which action is needed to address the issues that have been identified</p>



## 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 a referral to the Secretary of State where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; and
- Make written recommendations to the Authority which must be responded to publicly.

We have not exercised any of these statutory reporting powers.

### 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 30 July 2019.

### 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 Independent Audit Committee in May 2019.

We have completed our work for the 2018/19 financial year, but at the time of producing this report, we have not yet finalised our audit fees for the year. If the final fee varies from that in the table below, we will write to the Chief Financial Officer setting out the proposed variation and any reasons for the variation, and seeking agreement to it. 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	2018/19 proposed fee	2018/19 final fee ***
Delivery of audit work under the NAO Code of Audit Practice	£24,387	£24,387

\*\*\* Please note that at the time of producing this report, the audit fee has not yet been finalised.

### 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

The revised 2019/20 to 2022/23 MTFP published by the Police, Fire and Crime Commissioner in February 2019 identified a number of cost pressures and funding gaps which are to be met in the short term through the use of contributions from reserves of £1.1 million in 2019/20 and £0.9 million in 2020/21, which is less than had previously been reported.

Management recognise that longer term this financial position is unsustainable and further detailed plans are being developed with the aim of bringing the Authority back to a recurring balanced financial position by 2021/22.

The use of reserves to support the longer term financial position is not sustainable. If additional efficiency savings can not be identified, then the Authority will face a number of potentially difficult operational decisions if it is to ensure the longer term financial stability of the fire service.

In addition to the reduction in government funding the Authority has several other financial pressures including:

- a risk that actual pay awards for firefighters exceed the provision included in the base budgets as although there has been recent progress, settlement has not yet been reached;
- rising employer contributions to the pension schemes with uncertainty as to the extent to which the Government will fund the increased costs; and
- the continuation of a cap on the percentage to which fire authorities can increase council tax without a costly referendum.

In our view, the Authority is entering a critical period in which action is needed to address the issues that have been identified.

### Operational challenges

The Authority has just been inspected by HMICFRS and expects to receive its report and grading in late 2019. Irrespective of the grading, the Authority will need to draw up an action plan to respond to opportunities for improvement identified by HMICFRS and delivering further improvement at a time of significantly diminishing resources will be challenging.

### How we will work with the Authority

Our 2019/20 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 will continue to support the Authority through our audit work and through our attendance at the Independent Audit 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.

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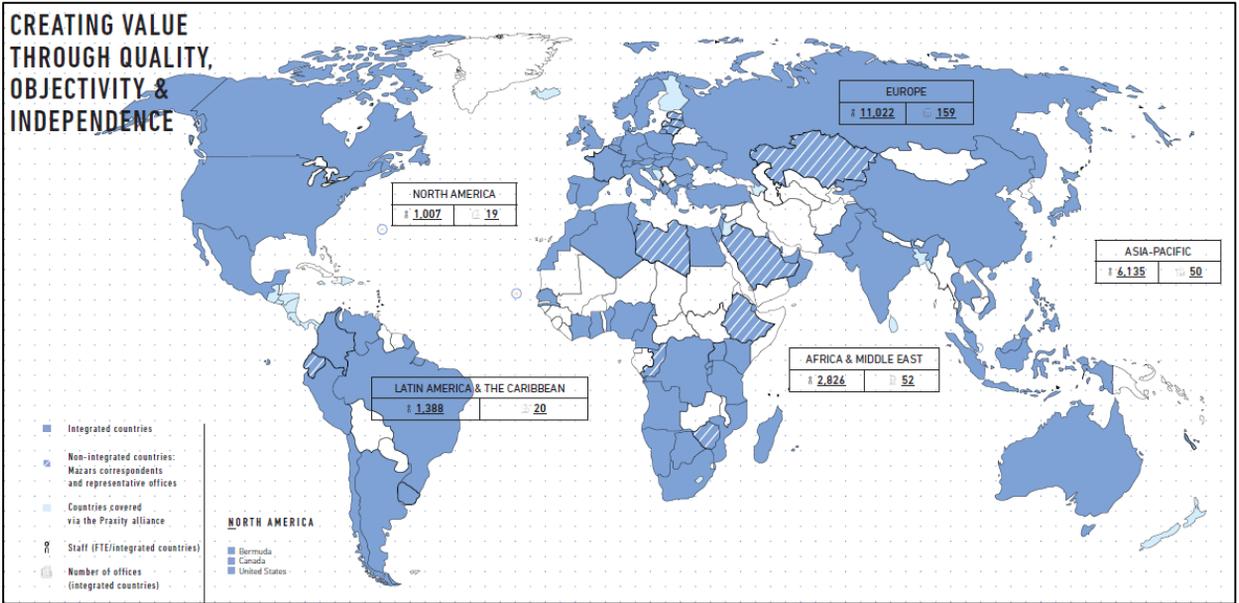
6. Forward look

# MAZARS AT A GLANCE

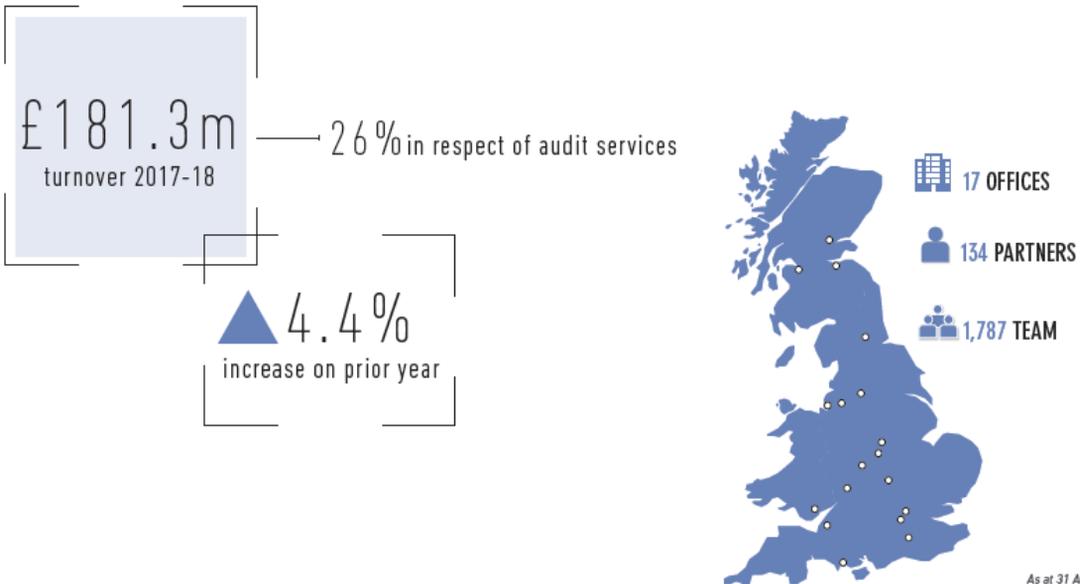
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