

Michael Porter
Chief Finance Officer
North Yorkshire Police, Fire and Crime
Commissioner Fire and Rescue Authority
Headquarters
Thurston Road
Northallerton
North Yorkshire
DL6 2ND

Direct Line 0191 383 6300
Email gavin.baker@mazars.co.uk

Date: 20 September 2019

Dear Michael

North Yorkshire Police, Fire and Crime Commissioner Fire and Rescue Authority - Additional Fee Letter 2018/19

When we issued the Annual Audit Letter for 2018/19 on 22 August 2019, we reported that we had not yet finalised our audit fees for the year. We indicated that if the final fee varied from the fee reported of £24,387 plus VAT, we would 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 (PSAA), which manages the contracts for our work.

You will recall that the fees from the 2018/19 audit year, were set by PSAA at 23% less than the fees for previous years, following the latest national procurement. It is envisaged that where additional work is undertaken beyond that normally expected a fee variation would be appropriate.

We have now assessed the final costs of our audit for 2018/19 and are seeking an additional fee variation of £950 plus VAT, making a total audit fee for the 2018/19 audit of £25,337 plus VAT.

The reasons for the variation are the significant additional work required as part of the audit this year in relation to accounting for IAS 19 pensions, in light of the national issues that arose, particularly in relation to the McCloud judgement.

These issues were summarised on page 8 of our Audit Completion Report, and resulted in significant amendments to the financial statements as set out on page 11 of the Audit Completion Report.

Mazars LLP – Salvus House - Aykley Heads - Durham - DH1 5TS
Tel: +44 (0) 191 383 6300 – Fax: +44 (0) 191 383 6350 – www.mazars.co.uk

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Extract from page 8 of our Audit Completion Report:

Significant matters discussed with management

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 was referenced in the Authority's draft financial statements. It 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 has not been granted leave to appeal, meaning that some form of restitution across all public sector pension schemes seems more certain, requiring the estimated impact of this to be reflected in the pension disclosures in the financial statements, subject to materiality considerations.

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 higher than expected returns in the final quarter of 2018/19.

For each of these issues, our approach has been to suggest that the Authority engages 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, which is material, has been reflected in amendments for both the firefighters' scheme and the LGPS. The amendments have resulted in an increase in fire service expenditure and the pension fund liability of £15.411m;
- The actuary for the firefighters' scheme has confirmed that they believe it is not appropriate to make a further amendment for GMP;
- An amendment has not been made to the LGPS for GMP, as the potential impact was assessed as only £98k; this has not been reported as an unadjusted misstatement as it is a change in an estimate rather than an error; and
- The impact of the change in asset values was assessed as only £125k; again, this has not been reported as an unadjusted error as this is a change in an estimate.

The additional work included but was not limited to:

- Assessing the impact of each of these issues as they emerged;
- Communicating and discussing the implications with your officers as the position became clearer;
- Discussing and agreeing the additional steps that would be required to address these issues;
- Reviewing the additional information provided by your officers and by the actuary to assess its reasonableness;
- Considering and following up on issues raised by our own consulting actuary; and
- Checking the amendments to the financial statement disclosures when they had been made.

In your case, the additional work was undertaken both in relation to the Local Government Pension Scheme and the firefighters' scheme.

In arriving at the additional fee variation, I believe we have been fair minded, and we have absorbed a significant element of our additional costs. However, I believe that a fee variation of £950 plus VAT and an additional contribution by the Authority to our additional costs in relation to this work is both reasonable and justified in the circumstances.

I write now to seek the Authority's agreement to the proposed fee variation, so that I can write to PSAA to seek approval of the fee variation.

Please feel free to contact me if you would like clarification on any point.

Thank you again to you and your team for the support and cooperation in enabling us to complete the audit.

Yours sincerely

Gavin Barker

Gavin Baker
Director