

Members of the Audit and Risk Committee
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26 October 2020

Dear Members

**County Durham and Darlington Fire and Rescue Authority
Follow Up Letter to our Audit Completion Report in relation to the 2019/20 Audit**

As required by International Standards on Auditing (UK), I am writing to communicate an update on those matters that were marked as outstanding within our Audit Completion Report dated 17 July 2020, and to draw your attention to additional issues that have arisen since we presented our report to the Audit and Risk Committee on 28 July 2020.

Additional issues arising since we reported in July

Members will recall from our presentation at the Audit and Risk Committee meeting on 28 July 2020, that your officers had produced the 2019/20 financial statements and we had audited them largely to the original timetable and without recourse to the extensions that had been provided this year due to the COVID-19 pandemic. The Audit and Risk Committee approved the financial statements on 28 July 2020, but we explained that we were unable to complete our audit and issue our audit opinion on the financial statements until we received assurance from the pension fund auditor.

Whilst the audit remained open there was always a risk that other issues might arise from external factors, and indeed, this is what has happened.

Summary of issues arising

The subsequent issues arising related to accounting for pensions. These issues are not specific to the Fire Authority, but were national issues impacting on all local government, police and fire bodies, to varying degrees. There have been two issues raised and these relate to the ongoing implications of the McCloud Judgement which was also an issue last year and a new case, the Goodwin case, and each are discussed separately below.

One of the issues arising led to a material amendment to the pension liabilities disclosed in the financial statements, and as a consequence, the financial statements have been amended and resubmitted by the Treasurer/s151 Officer for re-approval by the Authority.

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McCloud Judgement

The McCloud judgement relates to potential age discrimination arising from transitional protections offered to some existing members of public service pension schemes that were not made available to younger members. In July 2019, Treasury confirmed that the difference in treatment between older and younger members of public service pension schemes would need to be removed in order to remove the discrimination. Estimates for the additional pension liabilities arising from the McCloud case were included in the IAS 19 pensions disclosures for the Authority in 2018/19 and 2019/20. At the time of making this estimate actuaries were required to estimate what the proposed remedy would be.

In July 2020 Treasury initiated a consultation on the proposed remedy for public service pensions and MHCLG released a consultation into the proposed remedy for the LGPS, which set out the estimation basis for the impact of the judgement.

The difference between the original accounting entries and the entries required taking into account the consultation remedy were expected to be material in relation to the Firefighters' pension scheme. As such a revised IAS 19 Actuarial report was requested from GAD including the updated figures. As a result of these amendments, the pension liabilities on the Firefighters' pension scheme reduced by £2m.

Although not expected to be material, officers requested a view from the Actuary of the LGPS, Aon Hewitt, on whether McCloud was likely to have a material impact on the pension disclosures. The Actuary has stated that the methodology used already makes allowance for all the main elements of MHCLG's proposals and therefore they do not expect a material impact on the 2019/20 figures already produced.

The changes in the revised actuarial reports in respect of the pension schemes have been reflected in the updated financial statements that are to be re-approved by the Audit and Risk Committee at its meeting on 28 October 2020, and the accounting entries are summarised in Appendix A to this letter. We are required to include all unadjusted and adjusted misstatements in this letter, so that Members can see all of the adjustments at the point they approve the financial statements, but we have highlighted the changes from the Audit Completion Report issued previously in red so they are easy to identify.

As a result of the amendment, our materiality has reduced from £1.046m to £1.006m for the Group and £1.043m to £1.004m for the single entity. Performance materiality has reduced from £837k to £805k for the Group and £835k to £803k for the single entity. Triviality has reduced from £31k to £30k.

Goodwin Case

A case was made against the Teachers Pensions Scheme in relation to sexual orientation discrimination. The discrimination occurs because there is a difference in survivor benefits payable depending upon whether the member was in a same-sex marriage or civil partnership or an opposite-sex marriage or civil partnership. The government concluded that changes are required to the Teachers' Pension Scheme to address the discrimination. The government believes that this difference in treatment will also need to be remedied in those other public service pension schemes, where the husband or male civil partner of a female scheme member is in similar circumstances.

We understand from your actuary (GAD) that the Goodwin case will not have an impact on the liabilities for the Firefighters' pension scheme.

In relation to the LGPS, your actuary (Aon Hewitt) has confirmed that there will be an additional liability arising from the Goodwin judgement. Full information is not yet available to accurately calculate the full impact, however, based on an estimation, your actuary has indicated that the LGPS impact is likely to be in the region of 0.1% and 0.2% of the LGPS Fund's total liability. For the Fire Authority this would amount to an increased liability of between £35k and £70k. As the impact of this is well below our materiality level of £1.006m, 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 an unadjusted misstatement in Appendix A.

Update on matters previously reported as outstanding

The following matters have now been resolved.

Audit area previously reported as outstanding	Status	Updated position
We have a small number of areas for completion, including Property Plant and Equipment	COMPLETED	All of our remaining work has been completed and there are no further matters to bring to your attention
Pensions	COMPLETED	We have now completed our work on pensions, and in particular, we have received the assurance letter from the auditor of Durham County Council Pension Fund. The only matter to bring to Members' attention is the 'material valuation uncertainty' in relation to certain Pension Fund assets, as described in the next section of our letter.

The internal control recommendation in the Audit Completion Report, to ensure that all outstanding returns from Members' in relation to declarations of interests for the purposes of the related parties note, has now been resolved as set out in Appendix B.

‘Material valuation uncertainty’ in relation to Pension Fund assets

Durham County Council Pension Fund has made a disclosure of ‘material valuation uncertainty’ in relation to certain types of assets in the notes to its financial statements. As the Fire Authority’s accounts include a share of the Pension Fund assets, and the assets subject to the disclosure are above our materiality level, Note 4.2 to the Fire Authority’s financial statements in relation to sources of estimation uncertainty, has been updated to disclose the impact of this on the Fire Authority’s financial statements. The additional note is explained further in Appendix A, and the text has been highlighted in red for ease of reference.

In line with normal practice, we will include reference to this disclosure as an ‘emphasis of matter’ in our audit report. The purpose of this paragraph is to draw attention to this disclosure, it is not a qualification and does not modify our proposed unqualified opinion on the financial statements.

Our draft Auditor’s Report at Appendix C includes a draft emphasis of matter paragraph.

Current status of our audit work

At the time of preparing this update letter, we still anticipate issuing an unqualified opinion, without modification, on the financial statements, and we still anticipate concluding that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

At the time of preparing this update letter, the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
WGA		We are still awaiting group instructions from the National Audit Office. We now expect to issue our audit report without the completed certificate and the wording to reflect this is included in the draft Auditor’s report in Appendix C. A separate certificate will be issued when this issue has been resolved.
Closing Procedures		Review and closure processes, including final consideration of post balance sheet events. We expect to have completed these processes by the date of the Audit and Risk Committee, and we plan to issue our audit report after approval of the financial statements by the Audit and Risk Committee. We will need a letter of representation to be provided to us after the committee meeting, in the format set out in our original Audit Completion Report.

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



We will inform all Members of any further matters when we have completed the whole of government accounts formally closing the audit of County Durham and Darlington Fire and Rescue Authority. This will be reported in our Annual Audit Letter.

For completeness, I attach a final summary of misstatements as Appendix A to this letter. All changes between the Audit Completion Report and the final position are highlighted in red. I also attach at Appendix C, the draft Audit Report, which we expect to be able to sign and issue after approval of the financial statements by the Audit and Risk Committee on 28 October 2020.

If you wish to discuss these or any other points then please do not hesitate to contact me.

Yours faithfully

Gavin Barker

Gavin Barker
Director

For and on behalf of Mazars LLP

Appendix A – Summary of misstatements

The issues arising between the issue of the Audit Completion Report on 17 July 2020 and the issue of this update letter are highlighted in red.

We set out on below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £30k.

The first section 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 section outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2019/20

We have not identified any unadjusted misstatements.

Adjusted misstatements 2019/20

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1			2,000	
				2,000
	2,000			
		1,730		
		230		
		40		

Following consultation on the proposed remedy relating to the McCloud judgement, a revised report was obtained from GAD in relation to the Firefighters' Pension Scheme. The adjustments above have been made in the financial statements to reflect the revised position.

2	Dr: Creditors – other local authorities		106	
	Cr: Debtors – other local authorities			106

Relates to a debit balance on the creditor code which was then moved correctly to the debtor code in the ledger but is not reflected in the balance sheet.

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
3	Dr: Revaluations (decreases)		508	
	Cr: Property, plant and equipment			508
<p>Adjustment to remove the Stanhope extension asset from the fixed asset register and the accounts as this was already included within the main Stanhope building asset as part of the valuation therefore was double counted.</p>				
4	Dr: Creditors: Receipts in advance		125	
	Cr: Taxation and Non-Specific Grant Income	125		
<p>The first tranche COVID-19 funding received in March was without conditions and there is no indication of potential clawback if any is unspent. Accordingly, it should have been fully recognised upon approval, whereas the unspent element of the grant was originally credited to receipts in advance in the accounts.</p>				

Disclosure amendments

During the course of the audit we identified a number of presentational and disclosure issues. These were all relatively minor and have been adjusted for in the final version of the financial statements. We have summarised below some of the disclosure amendments required.

Pension Fund Assets:

Durham County Council Pension Fund has made a disclosure of 'material valuation uncertainty' in relation to certain types of assets in the notes to its financial statements. As the Fire Authority's accounts include a share of the Pension Fund assets, and the assets subject to the disclosure are above our materiality level, Note 4.2 to the Fire Authority's financial statements in relation to sources of estimation uncertainty, has been updated to disclose the impact of this on the Fire Authority's financial statements:

A small proportion (7%) of the Pension Fund's investments relate to unquoted property assets. As none of these investments are publicly listed, there is a degree of estimation involved in the valuations of these assets. The impact of Covid 19 has resulted in a significant reduction in the number of transactions in the market and consequently the relevant observable data available upon which to base a valuation judgement. As such a material valuation uncertainty clause has been included in a number of the Pension Fund's valuation reports due to the possible impact of Covid 19. Therefore there is less certainty, and a higher degree of caution should be attached to the valuation of the Pension Fund's property assets than would normally be the case. There is a risk that current valuations of our share of these Pension Fund assets may be under or over stated in the accounts.

Our opinion is not modified in respect of this matter. However, we have included an ‘Emphasis of Matter’ paragraph in our auditor report to highlight this disclosure. It is important to note that this is not a qualification.

Note 8.9 Debtors: Following the change to West Yorkshire Pension Fund, the Authority now makes pensions payments in advance each month. The amount selected for sampling relates to the April amount for £761k and was paid at the end of March therefore should be shown in payments in advance rather than in ‘other local authorities’. This has no impact on the primary statements. The disclosure note has been amended.

Note 8.2 Property, plant and equipment: ‘Impairment losses recognised in the Surplus on the Provision of Services’ are shown as £441k and ‘Impairment losses recognised in the Revaluation Reserve’ are shown as £92. These are the wrong way round and the note has been amended. There is no impact on the primary statements.

Note 7.5 Exit packages: We identified an £18k exit package that was shown in the incorrect banding (£20,000-£40,000 bracket), when they should be included in the £0-£20,000 bracket. This has been amended. There is no impact on the primary statements.

Appendix B – Internal control recommendations - Updated

Other deficiencies in internal control – Level 3

We identified one control deficiency for 2019/20 as set out below

Description of deficiency: Declarations of interest - Members

We noted that, at the date of preparing this report, 6 Members had not yet returned their declaration of interest forms for the 2019/20 year. These are used by the Authority to prepare the related party disclosures in the financial statements, and are important evidence for the audit. We recognise that the exceptional circumstances surrounding the Covid-19 pandemic may explain the delay, but we need all returns to be received before we can issue our audit opinion.

Potential effects

There could be undisclosed related party transactions.

Recommendation

Members return their declaration of interest forms as soon as possible to avoid delays in accounts preparation and audit.

Management response

Officers are actively pursuing those Members who have not returned their declaration forms with a view to having all returns by the end of July.

UPDATED POSITION: We are satisfied that we have obtained all returned forms, or where this has not been possible, we have used an alternative source of evidence. In future years, it is important that all returns are provided promptly and are available for the audit process.

Appendix 3 – Updated Audit Report Wording

We have highlighted in red matters raised in this letter.

Independent auditor’s report to the members of County Durham and Darlington Fire and Rescue Authority

Report on the financial statements

Opinion

We have audited the financial statements of County Durham and Darlington Fire and Rescue Authority (the Authority) and its subsidiaries (the Group) for the year ended 31 March 2020, which comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of County Durham and Darlington Fire and Rescue Authority and the Group as at 31st March 2020 and of the Authority and Group’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 2019/20.

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, 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.

Emphasis of Matter – Effect of the Covid-19 pandemic on the valuation of Pension Fund assets

We draw attention to note 4.2 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority’s share of certain Durham County Council Pension Fund’s assets. As disclosed in note 4.2 of the financial statements, the Pension Fund’s valuations of unquoted property assets included a ‘material valuation uncertainty’ declaration as a result of a significant reduction in the number of transactions in the market and consequently the relevant observable data available upon which to base a valuation judgement. Our opinion is not modified in respect of this matter.

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 and Group'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 Annual Governance Statement and 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, 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 2019/20, 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.

The Treasurer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 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 and Group 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 County Durham and Darlington Fire and Rescue 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 April 2020, we are satisfied that, in all significant respects, County Durham and Darlington Fire and Rescue Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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 April 2020, 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 2020.

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.

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 County Durham and Darlington Fire and Rescue 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.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

[Signature]

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Director
For and on behalf of Mazars LLP
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28 October 2020