

Annual Audit Letter

County Durham and Darlington Fire and
Rescue Authority

Year ending 31 March 2020





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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

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

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

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 28 October 2020 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Authority's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that:</p> <ul style="list-style-type: none">• the other information in the Annual Governance Statement and the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.</p>
Reporting to the group auditor	<p>In line with group audit instructions, issued by the NAO on 4th November, we reported to the group auditor in line with the requirements applicable to the Authority's WGA return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Authority.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

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

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

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

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Authority's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Durham County Council Pension Fund disclosed a 'material valuation uncertainty' in relation to the valuation of certain types of assets in the notes to its financial statements due to the outbreak of Covid-19 which has had a significant impact on global financial markets. As the Authority's accounts include a share of the Pension Fund assets, and the assets subject to the disclosure are above our materiality level, the Authority disclosed this within the notes to the financial statements in relation to sources of estimation uncertainty. We included an 'emphasis of matter' paragraph in our audit report to draw attention to this disclosure but this is not a qualification and does not modify our proposed unqualified opinion on the financial statements.

There are no other matters to bring to your attention.

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 Audit and Risk 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 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure	£1.046 million (Group) £1.004 million (Authority)
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£30,000
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Members allowances - Senior officer remunerations - Exit packages	£1,000 £5,000 £100,000



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Authority's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the 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>Management override of controls In all entities, 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. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> Accounting estimates impacting on amounts included in the financial statements; Consideration of identified significant transactions outside the normal course of business; and Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>We have not identified any material issues to bring to your attention.</p>
<p>Property, Plant and Equipment Valuation The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Authority's holding of PPE. Although the Authority uses a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the valuation of PPE to be an area of significant risk.</p>	<ul style="list-style-type: none"> We liaised with management to update our understanding on the approach taken in its valuation of land and buildings. We wrote to the valuer to obtain information on their methodology and their procedures to ensure objectivity and quality. We tested a sample of valuation movements to gain assurance that the accounting treatment is appropriate and considered evidence of valuation trends to assess the reasonableness of the valuations. 	<p>We have not identified any material issues to bring to your attention.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p>Defined benefits liability valuation</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. In 2019/20, the local government pension assets and liabilities are subject to triennial revaluation.</p>	<p>We addressed this risk by undertaking the following procedures:</p> <ul style="list-style-type: none"> • 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 actuaries and considered the reasonableness of each 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 and reviewed the methodology applied in the valuations. We considered the adequacy of disclosures in the financial statements. • We also sought assurances from the auditor of Durham County Council Pension Fund. 	<p>Page 3 sets out the issue relating to the 'material valuation uncertainty' relating to the valuation of certain types of assets within the Durham County Pension Fund due to the outbreak of Covid-19 which has had a significant impact on global financial markets.</p> <p>One amendment to the financial statements was required in relation to the McCloud judgement which relates to potential age discrimination arising from transitional protections offered to some existing members of public service pension schemes that were not made available to younger members. As a result, the pension liabilities on the Firefighters' pension scheme reduced by £2m.</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 identified the following deficiencies in internal control as part of our audit.

Description of deficiency	Declarations of interest - Members We noted that 6 Members had not returned their declaration of interest forms for the 2019/20 year by July 2020. These are used by the Authority to prepare the related party disclosures in the financial statements and are important evidence for the audit.
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 actively pursued those Members who had not returned their declaration forms and we obtained the required assurance prior to the issuance of the audit opinion in October 2020.



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Our audit approach

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

The overall criterion is that, ‘in all significant respects, the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’ To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

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

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

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>We reviewed financial, performance and risk management reports throughout the year and attended meetings of the Audit and Risk Committee. We did not identify any concerns regarding data quality or the decision-making process.</p> <p>A governance framework is in place including: the Authority’s Constitution which includes the Code of Conduct, Annual Governance Statement, and Code of Corporate Governance. The Code is consistent with the seven principles of good governance as identified in the CIPFA/SOLACE framework - ‘Delivering Good Governance in Local Governance</p> <p>The Authority reviewed management accounts through the year and the forecasts broadly reflected the year-end position.</p>	Yes



3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Informed decision making (continued)	<p>We considered the following aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and, based on our risk-based approach, we did not identify any significant issues or exceptions in the Authority’s arrangements:</p> <p>a) Acting in the public interest, through demonstrating and applying the principles and values of sound governance;</p> <p>b) Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management;</p> <p>c) Reliable and timely financial reporting that supports the delivery of strategic priorities; and</p> <p>d) Managing risks effectively and maintaining a sound system of internal control.</p>	Yes
Sustainable resource deployment	<p>Financial and performance reports demonstrate a history of achieving cost reductions without adversely affecting services to date and a balanced medium term financial strategy is in place up to 2023/24. The fair funding review has been postponed and will not now impact until 2022/23 but the Authority has a strategy in place to meet several different funding scenarios.</p> <p>We do note, however, that the Authority has a relatively low level of usable reserves (£7.290m at 31 March 2019 and £5.806m at 31 March 2020). Although the reduction to the current level has been planned, there is limited room for manoeuvre and in the current uncertain environment, clarity on future funding is essential and will require careful monitoring by Members.</p> <p>In December 2019 HMICFRS rated the Authority ‘good’ in two out of three inspection pillars and the Authority has implemented an improvement plan to address the deficiencies.</p> <p>We considered the following aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and, based on our risk-based approach, we did not identify any significant issues or exceptions in the Authority’s arrangements:</p> <p>a) Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions;</p> <p>b) Managing and utilising assets effectively to support the delivery of strategic priorities; and</p> <p>c) Planning, organising and developing the workforce effectively to deliver strategic priorities.</p>	Yes



3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>The Authority is committed to collaboration and continues to explore possibilities of partnership working with the police, ambulance and other fire authorities as well as private and voluntary sectors. A number of fire stations are shared with either the Police and/or the Ambulance Service.</p> <p>The Authority has procurement procedures in place and maintains a contract register which is published on the website.</p> <p>We considered the following aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and, based on our risk-based approach, we did not identify any significant issues or exceptions in the Authority's arrangements:</p> <ul style="list-style-type: none"> a) Working with third parties effectively to deliver strategic priorities; b) Commissioning services effectively to support the delivery of strategic priorities; and c) Procuring supplies and services effectively to support the delivery of strategic priorities. 	Yes



3. VALUE FOR MONEY CONCLUSION

Significant audit risks

The NAO’s guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our 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 not identified any significant audit risks.

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

Our 2019/20 value for money conclusion is focused on the arrangements in place during the 2019/20 financial year. Given the timing of the major impact of the pandemic one week before the end of the financial year, we did not identify an additional significant risk relating to the COVID-19 pandemic in our 2019/20 value for money conclusion work.

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



4. OTHER REPORTING RESPONSIBILITIES

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

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

Matters on which we report by exception

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

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

We have not exercised any of these statutory reporting powers.

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

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

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 24 November 2020.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements including the Annual Governance Statement is consistent with those statements and our knowledge and understanding of the Authority. In our opinion, the Annual Governance Statement and 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 Audit and Risk Committee in February 2020. This was based on the scale fee set by Public Sector Audit Appointments Limited. As noted throughout the year, we highlighted that there would be additional recurring audit fees as a result of increased regulatory pressures and requirements. We also mentioned that we would review the final position on fees when the audit was concluded.

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

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

Area of work	2019/20 proposed fee / PSAA scale fee (£)	2019/20 final fee (£)
Delivery of audit work under the NAO Code of Audit Practice	22,235	22,235
Fee in respect of group consolidation (previously agreed)	1,475	1,477
Recurring increases in the base audit fee arising from regulatory pressures		4,747
One-off fee increases for 2019/20 specific issues		2,052
Total Audit Fees	23,710	30,511

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

Audit area for recurring additional work	Final fee 2019/20
Additional work on PPE and related valuations	£1,789
Additional work on pensions	£1,533
Additional work on review of journals	£1,022
Additional work in relation to the consideration of going concern	£766
Total additional fee for 2019/20 (recurring in future years)	£4,747



5. OUR FEES

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

Additional work relating to the 2019/20 audit	Final fee 2019/20
Additional procedures to review the potential impact of the proposed remedy in the McCloud case against the pension liability disclosures, and consideration of the potential impact of the Goodwin case on pension liabilities – review of the revised disclosures for the firefighters’ scheme in respect of McCloud	£1,026
Additional procedures in relation to Material Valuation Uncertainty of the Authority’s property assets, including consideration of whether an additional disclosure was required and whether an Emphasis of Matter paragraph was needed in the audit report. We concluded that this was not necessary given that a desktop revaluation exercise had been undertaken and the nature of the assets in the portfolio	£513
Additional procedures in relation to Material Valuation Uncertainty of the Pension Fund’s property assets, including disclosures and the inclusion of an Emphasis of Matter paragraph in the audit report, which was subject to Consultant Partner Review	£513
Total additional fee for 2019/20 (not recurring)	£2,052

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

Financial and performance reports demonstrate a history of achieving cost reductions without adversely affecting services to date and a balanced medium term financial strategy is in place up to 2023/24. The fair funding review has been postponed and will not now impact until 2022/23 but the Authority has a strategy in place to meet several different funding scenarios.

We do note, however, that the Authority has a relatively low level of usable reserves (£7.290m at 31 March 2019 and £5.806m at 31 March 2020). Although the reduction to the current level has been planned, there is limited room for manoeuvre and in the current uncertain environment, clarity on future funding is essential and will require careful monitoring by Members.

Operational challenges

In December 2019 HMICFRS rated the Authority 'good' in two out of three inspection pillars and the Authority has implemented an improvement plan to address the deficiencies. This is clearly an ongoing process for the Authority.

Legislative / environmental changes

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

How we will work with the Authority

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

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



6. FORWARD LOOK

Changes to the Code of Audit Practice

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

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

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

The auditor's work on value for money arrangements

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

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

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

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

Reporting the results of the auditor's work

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

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



6. FORWARD LOOK

Redmond Review

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

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

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

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

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



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