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Internal Audit quarterly report

Audit Committee

Date: 23 April 2021

Agenda Item:

Submitted By: Chief Finance and Procurement Officer

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Purpose	To present the Internal Audit report January to March 2021
Recommendations	That Members note the content of the report
Summary	To provide a summary of the audit activity for the period January to March 2021 and to report the findings to the Committee

Local Government (Access to information) Act 1972

Exemption Category: None

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Background papers open to inspection: Internal Audit quarterly reports

Annexes: Internal Audit quarterly report

1 Introduction

1.1 This Committee has the responsibility for monitoring the work of internal audit. In order to facilitate this, Internal Audit provide a quarterly report of its progress which includes a summary of the work completed and an assessment of the level of assurance provided by the systems examined. This report covers the period from January to March 2021.

On completion of each audit the Auditors provide an assessment of the level of assurance that the control systems in place provide. There are four rankings as detailed below:-

Substantial assurance
Adequate assurance
Limited assurance
No assurance

This report includes a detailed explanation of action which has been taken on any audits which are ranked as providing either limited assurance or no assurance.

2 Audit Work

- 2.1 Audit Committee approved the Internal Audit Plan in April 2020, however, the Covid19 pandemic has affected the ability to deliver this approved plan during 2020/21, this is primarily due to staff availability.
- 2.2 The plan has subsequently been revised following approval at Audit Committees in July and October. This revised plan includes 15 prioritised audits reflecting estimated resources available during the remainder of the year. The internal audit manager advises that there should be a sufficient body of work on which to base the annual opinion on governance, risk management and internal control arrangements that is required as per the Accounts and Audit Regulations 2015.
- 2.3 In the period January to March, five audits have been completed, four received substantial assurance and one received adequate assurance. In addition, there are another two audits in progress which are due to be finalised in April.

3 Financial Implications

- 3.1 The Authority will be refunded for 50 days of audit work that could not be resourced in the last financial year, this relates to planned audit work carried forward from 2019/20 and the first part of 2020/21.

4 Human Resource and Diversity Implications

- 4.1 There are no human resource or diversity implications with this report.

5 Health, Safety and Wellbeing Implications

- 5.1 There are no health, safety, or wellbeing implications with this report.

6 Environmental Implications

- 6.1 There are no environmental implications with this report.

7 Your Fire and Rescue Service Priorities

- 7.1 The provision of internal audit satisfies all the fire and rescue service priorities.

8 Conclusions

- 8.1 That Members note the internal quarterly review report.



INTERNAL AUDIT QUARTERLY REPORT

2020/21

January to March 2021

Simon Straker: Audit Manager

ABOUT THIS REPORT

This report contains information about the work of the Authority's Internal Audit provided by Kirklees Council. The 2020/21 Audit Plan was approved by this Committee at the start of the year covering a variety of areas enabling an annual opinion to be formed on the Authority's governance, risk management and internal control arrangements. Due to lockdown a revised Plan was agreed at the meeting in July and this report forms an update on activity since. Following further disruption the Head of Internal Audit discussed the situation with the Chief Finance & Procurement Officer and confirmed that it will be possible to give an Annual Opinion as required by professional standards and set out in the SLA.

For ease of reference the audits are categorised as follows:

1. Summary
2. Major and Special Investigations
3. Key Financial Systems
4. Other Financial Systems & Risks
5. Locations and Departments
6. Business Risks & Controls
7. Follow Up Audits
8. Recommendation Implementation
9. Advice, Consultancy & Other Work
10. Audit Plan Delivery

Investigation summaries may be included as a separate appendix depending upon the findings.

When reports have been agreed and finalised with the Director concerned and an Action Plan drawn up to implement any improvements, the findings are shown in the text. Incomplete audits are shown as Work in Progress together with the status reached: these will be reported in detail in a subsequent report once finalised.

Good practice suggests that the Authority's management and the Audit Committee should receive an audit opinion reached at the time of an audit based upon the management of risk concerning the activity and the operation of financial and other controls. At the first meeting of the Audit Committee, Members resolved to adopt an arrangement relating to the level of assurance that each audit provides.

As agreed with the Audit Committee, the report has been expanded to include details of the key recommendations applicable to each audit that does not result in a formal follow up visit and the action taken by management regarding their implementation. The final section of the report concerns Audit Plan delivery.

It is the practice of Internal Audit to undertake follow up audits to ensure that agreed actions have been undertaken. Any audits that produce less than "adequate assurance" will be followed up, together with a sample of the remainder and a new opinion will be expressed about the level of assurance that can be derived from action taken by management to address the weaknesses identified.

1. SUMMARY

This report contains an update on recent internal audit work that forms part of the revised Audit Plan 2020/21.

The revised plan agreed with the Chief Finance & Procurement Officer included 15 prioritised audits reflecting estimated resources available during the remainder of the year. In addition to a refund for 50 days of work that could not be resourced, relating to both 2019/20 and the first part of 2020/21, whilst performance under the revised plan has been positive, as described below, the day count has totalled 30 less than the 130 agreed (allowing for the completion of work in progress), owing to one audit being carried forward and a revised way of working under covid. Therefore, a total refund of 80 days is due to the Authority.

Ten of the revised audits were completed by the end of March and at the time of preparing this report a further two in progress are scheduled to be completed around the time of the Committee meeting, so it should be possible to provide a verbal update at that point. The audit of pension administration has been deferred to the end of April at management's request and the review of evidence for the implementation of the HMIFRS's recommendations prior to their next visit was deferred into the first quarter of 2021/22 owing to the deferment of the visit itself due to covid. The final audit on the risk of faulty PPE has been carried forward into the 2021/22 Draft Plan.

Therefore taking all of the above into account it has been determined that there is a sufficient body of work delivered to base the annual opinion on governance, risk management and internal control arrangements that is required.

2. SPECIAL INVESTIGATIONS & REVIEWS

None during this time.

3. KEY FINANCIAL SYSTEMS & RISKS

System	Findings	Audit Opinion
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Chief Finance & Procurement Officer

Income Management – Impact of Covid 19

The impact on Covid-19 on Authority finances is being monitored closely. Regular financial reports have continued to be provided over the period of the pandemic which are presented by the Chief Finance and Procurement Officer to both senior managers and members. The quarterly financial review reports submitted to the Finance & Resources Committee include a section specifically relevant to the financial impact of Covid-19. The revised budget setting process included adjustment to budget lines impacted by Covid-19. A year end budget underspend is forecast for 2020/21. SAP reports and working papers supporting revenue reporting to the Finance and Resources Committee in February 2021 were provided for audit purposes.

Covid-19 has impacted on income as well as expenditure streams with less activity across most revenue budget headings, resulting in an under-achievement of budgeted income, including false alarm call charges – charges suspended from premises that are closed, Youth Training Programme – suspension of learning and training, delivery of Fire Safety Schemes suspended, including the Primary Authority Scheme, reduced demand for special services and lift rescue and a three month extension given on the renewal of explosive licenses, plus less demand for these licenses.

The level of outstanding debt owed to the Authority as at the end of February 2021 was £301,650. Although this is an increase on previous years, most of this debt is new (90% of debt owing being 30 days or less). The revised budget setting process included adjustment to budget lines impacted by Covid-19. A year end budget underspend is forecast for 2020/21 SAP reports and working papers supporting revenue reporting to the Finance and Resources Committee in February 2021 were provided for audit purposes.

However, the Authority has received Covid-19 government grant funding of almost £2.2m of which £1m is forecast to be spent in 2020/21, primarily on overtime to cover staff that are either off sick or isolating due to Covid-19, PPE and additional cleaning costs. Any remaining grant will be carried forward to 2021/22. Additionally, the Authority is submitting claims against the Local Government Income Compensation Scheme for lost sales, fees and charges as a result of Covid-19. Under the Scheme the Authority is required to absorb losses up to 5% of its planned 2020/21 sales, fees and charges income with Government compensating for 75p in every pound of loss thereafter.

Substantial Assurance

4. OTHER FINANCIAL SYSTEMS & RISKS

System	Findings	Audit Opinion
Director of Service Support		
IT Software Licensing	<p>Although there is no single comprehensive record of licences purchased and/or assigned for each of its software applications, information regarding licence numbers and user numbers was made available for the purpose of the audit, with most applications having licence management tools available enabling the ability to report on such information. The audit found no evidence of unlicensed use on software applications purchased by the Authority, and found the Authority to be legally compliant in terms of assigned licences.</p> <p>The Microsoft Licensing Portal provides access to all Microsoft licensing information in one easily accessible location, providing information on the number of licences held against the number assigned. There is currently a surplus of licences than needed. However, licences are audited and realigned to requirement each year at the annual subscription renewal.</p> <p>Without any regular pro-active monitoring on the usage of software, it is likely that there will be instances of software being installed on devices which is rarely or never being used. However, processes are in place for the formal notification of employee changes which enables the appropriate system access (and licence) changes to be made. When an employee is replaced in role, their device is checked by the ICT team and re-cloned for the new employee, at which point ad hoc licences would be identified and the continued need discussed with the relevant manager.</p> <p>The majority of expenditure relating to software is being routed through the ICT department in accordance with the corporate approach. However, it is not possible to quantify software costs, as this expenditure is coded to a more general ICT Maintenance and Support cost code.</p>	Substantial Assurance
Chief Finance & Procurement Officer		

Mobile Phone Contract	Audit in Progress	
National Fraud Initiative 2020/21	<p>The Authority is required to submit its payroll and creditor suppliers and payments data in this biennial national data matching exercise led by the Cabinet Office. A small number of exception reports were made available at the end of January, primarily related to potential duplicate payments, VAT errors and a small number of secondary employment cases.</p> <p>Whilst a small number of queries remain to be resolved these are not sufficiently material to affect the overall opinion that the system controls and procedures are effective in ensuring staff recruitment arrangements and compliance with conditions of service such as making required declarations around other employment and any conflict of interests are effective and that the accounts payable process is robust.</p>	Substantial Assurance
Pensions Administration	The audit has been deferred until April 2021 at management's request.	

5. LOCATION & DEPARTMENT AUDITS

None during this period.

6. BUSINESS RISK AUDITS

This category of audits reflects the Audit Strategy to incorporate coverage of the controls and management actions to respond to the key risks to the Authority's objectives as codified in the Corporate Risk Matrix.

Director of Service Support

Third Party Health & Safety Exposure

This review provides assurance that the Corporate Risk Matrix entry is being well managed and that the mitigating controls as listed are in place and operational. However, listing the specific mitigating controls that are in place (and ongoing) around contractor management would improve clarity for risk management and monitoring purposes, as opposed to the current single reference to the Police/ RoSPA action plan. Significant progress has been made on ensuring that arrangements for the safe management of contractors are incorporated into policy and procedure documents which are reflective of legislative requirements and best practice.

The development of the SOTER software is key in facilitating a structured electronic process for the Property Management Unit to manage and monitor appointed contractors. SOTER has been developed to include a module for facilitating and evidencing contractor site inspections although monitoring/ audit visits is not as yet fully operational.

Audit testing identified that greater clarity is needed in relation to what constitutes key documentation in relation to each appointed contractor to ensure that it is appropriately flagged on the system and therefore subject to the system's monitoring process. Evidence is not being collated on SOTER pertaining to individual operatives' mandatory training and competencies (e.g. asbestos awareness training), with responsibility resting with the contractor to ensure that this is completed and current, as validated through the contract specification and tender process. This being the case, it is considered important that contractors certify annually that their operatives conform to industry standard (and Authority) training and competency requirements.

Adequate Assurance

Director of Service Delivery

Abuse and Assaults on Staff	<p>Whilst one incident is one too many, the audit confirmed that based on the information provided regarding the targeted and generic processes in place, it appears that the management actions in place are effective at mitigating the risks of assaults on staff, as reflected in the reduced numbers recorded and reported this year.</p> <p>Since the last audit, evidence was provided to support management actions that have continued to develop including an increase in cross party working arrangements, addition of specialist roles, expansion of the Intervention Team delivering targeted youth intervention and community engagement programmes, and targeted media campaigns.</p> <p>The Assaults on Emergency Workers (Offences) Act 2018, which came into force in November 2018, was introduced in response to an increase in assaults on emergency workers and has made assaults on Emergency Workers a specific offence. To date there have been 2 successful prosecutions undertaken by WY Police on behalf of the Authority.</p>	Substantial Assurance
Implementation of Grenfell Phase 1 Recommendations	Audit in Progress	

7. FOLLOW UP AUDITS

Any audits that result in a less than adequate assurance opinion are followed up usually within six months, depending upon the timescale for implementing the agreed recommendations. Additionally, a sample of other audits is followed up periodically too.

8. REVIEW OF KEY RECOMMENDATIONS & EXTENSIONS OF TIME TO IMPLEMENT

No key recommendations were outstanding.

A request from management to extend the agreed implementation date for a recommendation relating to the following audit has been agreed:

Safeguarding – a *Significant* recommendation, concerning staff training now has a revised completion date of 30 September 2021.

9. ADVICE, CONSULTANCY & OTHER WORK

None this period.

10 AUDIT PLAN DELIVERY 2020/21

Performance Indicators	18/19 Actual	19/20 Actual	20/21 Revised Target	20/21 Actual
Audits completed within the planned time allowance	100%	80%	90%	80%
Draft reports issued within 10 days of fieldwork completion	100%	90%	90%	80%
Client satisfaction in post audit questionnaires	100%	90%	90%	n/a
Chargeable audit days	155	130	140	100
QA compliance sample checks – percentage pass	100	100	100	100%

Planned Audits Completed	17	10	15	10
Planned Audits in Progress				2
Planned Audit Deferred		3		2
Planned Audits Postponed		4		1
Unplanned Work Completed		3		0
Unplanned Work in Progress				0



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Risk Management Strategy Group update

Audit Committee

Date: 23 April 2021

Agenda Item:

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Submitted By: Director of Service Delivery

Purpose To report risk management activity and developments reported to Risk Management Strategy Group (RMSG) in March 2021 and highlight any future risks or risk related areas.

Recommendations That the Audit Committee note the report.

Summary The overall responsibility of the RMSG is to maintain the Authority's risk management capabilities and to develop strategies to effectively manage new and existing risks. The RMSG meet on a quarterly basis and the group is chaired by the Deputy Chief Fire Officer/Director of Service Delivery. The RMSG is one element that supports the Authority's Code of Corporate Governance in terms of risk management and internal control.

Local Government (Access to information) Act 1972

Exemption Category: None

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Background papers open to inspection: Risk Management Strategy and Policy

Annexes: None

1 Introduction

- 1.1 The Authority's Risk Management Strategy and Policy provides a clear and defined strategy to enable risk management objectives to be met.
- 1.2 The Risk Management Strategy Group (RMSG) has the responsibility of maintaining the Authority's risk management capabilities and developing strategies to effectively manage new and existing risks. The group meet every three months at which time a summary of risk reviews that have occurred in the past three months is provided by each risk owner.
- 1.3 The group is also responsible for sharing and promoting experience of risk management and strategies across the Authority.

2 Information

2.1 The Risk Management Strategy Group last met in March 2021. The Audit Manager and the Risk and Insurance Manager from Kirklees Council attend RMSG meetings. The Audit Manager provides an update on recent internal audit activity.

2.2 Below is a summary of key areas:

- Between the December 2020 and March 2021 RMSG meetings, 22 risks have been reviewed by their respective owners.
- The risk 'Ineffective response and recovery to the Coronavirus COVID-19 pandemic leading to and impacting on staff, absence levels, health/safety/wellbeing, service delivery, the public/community, partners, finance, reputation and legal issues' is reviewed every three months. The current risk score is 12.
- The risk 'GDPR1.S - Failure to fully implement the requirements of the General Data Protection Regulations (GDPR) by 25 May 2018', will be removed from the risk matrix. A GDPR Preparedness audit was originally undertaken in May 2018. Following this audit, it was agreed to retain the risk on the risk matrix until assurance of full implementation was provided. A Data Protection/GDPR Compliance audit was completed in January 2021, which resulted in a 'substantial assurance' audit opinion with one recommendation which has now been completed. Any data issues will now be captured by the risk 'MOIA - Misuse of information assets'.
- The Risk Management Strategy and Policy is currently being reviewed by RMSG members and will be submitted to the next Audit Committee meeting for final approval.

2.3 There are currently 53 risks split between the following categories. The table below shows movement over the past 12 months.

Risk Factor Score	June 2020	September 2020	December 2020	March 2021
Very High (15-25)	5	6	6	6
High (9-14)	22	22	22	22
Medium (4-8)	23	22	22	21
Low (1-3)	4	4	4	4
Total number of risks	54	54	54	53

The 6 'very high' risks remain the same as December 2020:

LRGG1.S - Loss or reduction in government grant.

WAFL1.S - Wide area flooding and swift water rescue.

MTAE1.S - Responding to a marauding terrorist attack event.

DSYS1.S - Inability to continue/deliver duty systems.

PLOS1.S - Temporary loss of personnel (e.g. flu, industrial action) resulting in reduced levels of service.

CYBS1.S - A digital attack or an unauthorised attempt to access WYFRS systems that impacts on the integrity, confidentiality, or availability of systems and / or the information within them.

3 Financial Implications

3.1 There are no significant financial implications associated with this report.

4 Human Resources and Diversity Implications

4.1 There are no significant human resources and diversity implications associated with this report.

5 Health and Safety and Wellbeing Implications

5.1 There are no significant health and safety/wellbeing implications associated with this report.

6 Environmental Implications

6.1 There are no significant environmental implications associated with this report.

7 Your Fire and Rescue Service Priorities

7.1 This report supports the following priorities which have been identified in the 'Your Fire & Rescue Service 2020-2023' plan.

- Reduce the risks to the communities of West Yorkshire
- We will continue to develop ways of working which improve the safety & effectiveness of our firefighters

8 Conclusions

8.1 That the Audit Committee note the report.



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Accounting Policies

Audit Committee

Date: 23 April 2021

Agenda Item:

8

Submitted By: Chief Finance and Procurement Officer

Purpose To present the accounting policies that will be applied in the preparation and presentation of the Statement of Accounts 2020/21.

Recommendations That Members note the report

Summary It is considered good practice for the Audit Committee to review the proposed accounting policies to be used in the preparation of the Authority's Statement of Accounts.

Local Government (Access to information) Act 1972

Exemption Category: None

Contact Officer:

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Background papers open to inspection: None

Annexes: Accounting policies

1 Introduction

- 1.1 The Statement of Accounts summarises the Authority's transactions for the 2020/2021 financial year and its position at the year end of 31 March 2021.
- 1.2 The Authority is required to prepare an annual Statement of the Financial Accounts as per the Accounts and Audit Regulations 2015. These regulations require the Financial Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in 2020/21 and the Service Reporting Code of Practice 2020/21 supported by International Financial Reporting Standards (IFRS).
- 1.3 Revised regulations have been introduced by Ministry for Housing, Communities and Local Government to amend the publication date of the audited accounts from 31 July to 30 September. This will be implemented by the Accounts and Audit (Amendment) Regulations 2021. As a consequence, the requirement for the statutory inspection date of the accounts has been put back to 1 August from 31 May. These amended regulations come into force on 31 March and will apply for the next two financial years.

Subject to approval of the Authority for an amendment to the approved programme of meetings, it is proposed that the accounts will be presented to Audit Committee on 30 September for approval.

2 Information

- 2.1 Accounting policies are defined by the Code as "the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements".
- 2.2 As a starting point in selecting its accounting policies, the Authority uses the example policies set out in the CIPFA Code of Practice guidance notes. However, the policies are then tailored to meet the Authority's own needs and circumstances. The policies settled upon should cover all material transactions and balances (e.g. revenue recognition, non-current assets and retirement benefits) and should be followed in practice.
- 2.3 Policies do not need to be disclosed in respect of immaterial transactions or balances, or where they are not applicable to the Authority. The policies are reviewed and, if necessary, updated annually to reflect changes to the Code, accounting standards or statutory guidance.
- 2.4 For 2020/21 there have been no material changes to the set of accounting policies included within the 2019/20 Statement of Accounts.
- 2.5 The changes to IFRS16, the accounting standard applicable to leases, has been postponed for a further year to 1 April 2022. In summary, the change to this accounting standard will require the Authority to capitalise the lease cost of vehicles rather than treat them as a revenue cost.
- 2.5 The policies which will be followed in the preparation of the 2020/21 Statement of Accounts are set out in Appendix A.

3 Financial Implications

3.1 There are no financial implications associated with this report.

4 Human Resource and Diversity Implications

4.1 There are no human resources and diversity implications associated with this report.

5 Health, Safety and Wellbeing implications

5.1 There are no health, safety and wellbeing implications associated with this report.

6 Environmental Implications

6.1 There are no environmental implications associated with this report.

7 Your Fire and Rescue Service priorities

7.1 This report links to all the Service's priorities as detailed in the "Your Fire and Rescue Service" document.

8 Conclusions

8.1 In accordance with good accounting practice it is recommended that Members approve the accounting policies that will be used during the preparation and production of the 2020/21 Statement of Accounts.

Note 1 – Accounting Policies

General Principles

The Statement of Accounts summarises the Authority's transactions for the 2020/2021 financial year and its position at the year end of 31 March 2021. The Statement of Accounts are prepared on a going concern basis and the Chief Finance and Procurement Officer is unaware of any material uncertainties relating to the Authority's ability to continue as a going concern.

The Authority is required to prepare an annual Statement of the Financial Accounts as per the Accounts and Audit Regulations 2015. These regulations require the Financial Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in 2020/21 and the Service Reporting Code of Practice 2020/21. Supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The following accounting concepts have been applied and policies adopted in preparing the financial accounts:

Fundamental Accounting Concepts

The financial statements, other than cash flow information, are prepared on an accrual's basis. This means that revenue and capital expenditure and income are recognised in the accounts in the period in which they are incurred or earned, not as money is paid or received.

Consistent accounting policies have been applied both within the year and between years unless otherwise identified.

The accounts have been prepared on a going concern basis that is on the assumption that the Authority will continue to be in operational existence for the foreseeable future.

The concept of materiality has been utilised such that insignificant items and fluctuations under an acceptable level of tolerance are permitted, provided in aggregate they would not affect the interpretation of the accounts.

Where specific legislative requirements and accounting principles conflict, legislative requirements are applied.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received in accordance with section 2.7 of IFRS15. In particular:

- Revenue from the provision of services is recognised when the Authority can measure reliably the completion of the transaction.
- Supplies are recorded as expenditure when they are consumed.
- Expenses in relation to services received (including the services from employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowing is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of more than 24 hours. The Authority has deposits in financial institutions that are repayable on demand which are classified in the accounts as cash and cash equivalents.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts which form an integral part of the Authority's cash management.

Exceptional Items

Any exceptional items are included in the cost of service to which they relate or on the face of the Comprehensive Income and Expenditure Statement, if such a degree of prominence is necessary to give a fair presentation of the accounts. Details of such items are given in the notes to the accounts.

Prior Period Adjustments

Prior year adjustments may arise from changes in accounting policies or from the correction of a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment. Material errors that are identified in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Charges to Revenue for Non-Current Assets

Front line services and support services are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the loss can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations; however, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, which is calculated by the Authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are replaced by a contribution in the General Fund Balance of Minimum Revenue Provision, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Employee Benefits

Benefits payable during employment

Short term benefits are those due to be settled within 12 months of the year end. They include such benefits as salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year which employees render service to the Authority.

An accrual is made for the cost of holiday entitlements, accrued flexi time and time in lieu earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the deficit on the Provision of Services but then removed from the account, matched by a corresponding adjustment to the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Post-Employment Benefits

Accounting for retirement benefits is carried out in line with International Accounting Standard 19 (IAS19). IAS19 requires an authority to see beyond its commitment to pay contributions to pension funds and to determine the full longer-term effect that the award of retirement benefits in any year has had on the authority's financial position. Inclusion of the attributable share of the fund assets and liabilities does not mean that legal title or obligation has passed to the employer, instead it represents the employer's commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit via reduced contributions from a surplus in the scheme.

IAS19 only applies to defined benefit schemes that are those where retirement benefits are determined independently of the investments of the scheme and employers have obligations to make contributions where assets are insufficient to meet employee benefits.

The Authority participates in the following retirement schemes:

- 1992 Firefighters' Pension Scheme (FPS).
- 2006 Firefighters' Pension Scheme (NFPS).
- Retained Modified Scheme.
- 2015 Firefighters' Pension Scheme.
- Firefighters' Compensation Scheme (FCS).
- The Local Government Pension Scheme (LGPS).

The Government introduced a new pension scheme on the 1st April 2015, the 2015 Firefighters Pension Scheme. Members of the 1992, 2006 and Retained Modified Scheme either transferred to the scheme with no protection, have tapered protection or have full protection in the existing schemes as follows:

1992 Firefighters' Pension Scheme

If a member at the 1/4/12 was within 10 years of the normal pension age (50 years old), and were aged 45 and over then full protection is awarded and the member remains in the 1992 FPS.

If a member at the 1/4/12 was aged between 41 and 45 they have tapered protection and will join the 2015 scheme at a specified date unique to the member.

2006 Firefighters' Pension Scheme

If a member at the 1/4/12 was within 10 years of the normal pension age, and were aged 50 and over then full protection is awarded and the member remains in the 2006 FPS.

If a member at the 1/4/12 was aged between 46 and 50 they have tapered protection and will join the 2015 scheme at a specified date unique to the member.

Retained Modified Scheme

Members have the same protection as those in the 1992 FPS because they have a normal retirement age of 55.

Firefighters' Compensation Scheme

Under the Firefighters' Compensation Scheme injury awards are payable to those firefighters who have sustained a qualifying injury in the exercise of their duties as a firefighter which are paid from the Authority's revenue account.

Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) is accounted for as a defined benefit scheme

- The liabilities of the LGPS attributable to the Authority are included in the Balance Sheet on an actuarial basis using an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees based on assumptions about mortality rates, employee turnover rates and projections of expected earnings for current employees.
- Liabilities are discounted to their value at current prices using a discount rate determined in the actuaries' assumptions.
- The assets of the LGPS attributable to the Authority are included in the Balance Sheet at their fair value.

The change in the net pension's liability is analysed into seven components:

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the service to which the employee worked.
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
- Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined liability (asset) at the beginning of the period considering any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:

- The return on plan assets – excluding amounts included in net interest on the net defined liability (asset) which is charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits to employees – debited or credited to the deficit on the Provision of Service in the Comprehensive Income and Expenditure Statement as part of non-distributed costs.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the LGPS – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirements benefits on the basis of cash flows rather than as benefits earned by employees.

The 2020/21 Code (and IAS 19 Employee Benefits Revised) requires that administration costs directly related to the management of plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligations, are recognised as a reduction in the return on plan assets and recorded in Other Comprehensive Income and Expenditure.

The 2020/21 Code does not prescribe a specific accounting treatment for administration costs that are not deducted from the return on plan assets. The accounting treatment adopted by West Yorkshire Pension Fund is to deduct administration costs from the cost of services.

Discretionary Benefits

The Authority also has the restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Pension Fund

The Authority maintains a Firefighters' Pensions Fund from which pension payments are made and into which all contributions (employees and employer's) are received. The annual deficit is topped up as necessary by specific government grant.

Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period, the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect. Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Financial Instruments

Financial Liabilities

Financial Liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the

instrument to the amount at which it was originally recognised. For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the re-purchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading losses over the life of the replacement loan and gains over a similar period up to a maximum of ten years. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

There are two main classes of financial assets measured within the Authority at:

- Amortised cost and;
- Fair value through other comprehensive income (FVOCI)

The Authority holds investments to collect contractual cash flows i.e. payments of interest and principal. Most of the Authority's financial assets are therefore classified at amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument). The Authority therefore made the irrevocable election to designate changes in equity investments in other comprehensive income as permitted under IFRS. The Authority does not currently hold any equity investments and therefore all assets are currently held at amortised cost.

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Where the Authority has entered into a financial asset and recognises the potential for any loss, then this will be recognised over the lifetime of the asset.

Available for Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the amortised cost of the asset multiplied by the effective interest rate for the instrument. Where there are no fixed or determinable payments, income (for example, dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contributions have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, if not, future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. The Authority has set a de-minimis level for revenue grants and contributions at £20,000.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it is applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Intangible Assets

Expenditure on the acquisition of intangible assets is capitalised, brought onto the Balance Sheet at cost and amortised over the period benefit is received. Software licences that are purchased by access to a web portal rather than the software being installed on a fire Authority IT device are charged as an expense to the revenue account.

Estimated lives for new intangible assets are 5 years and are amortised on a straight-line basis.

Intangible assets are amortised on their current net book value and it is assumed that residual value is insignificant or nil. Intangible assets are reviewed annually for impairment. All services are charged with a provision for amortisation and, where required, any related impairment loss, for all intangible assets used in the provision of the service.

Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Leases

Finance Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee.

Leases that do not meet the definition of finance leases are accounted for as operating leases. The Authority had no finance leases in 2020/21.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the service benefitting from the use of the leased property, plant or equipment.

Charges are made on a straight line basis over the life of the lease, even if this does match the pattern of payments.

The Authority leases no assets to other organisations.

Overheads and Support Services

The cost of overheads and support services are charged to service segments in accordance with the Authority's arrangements for accountability and performance.

Property, Plant and Equipment

Assets that have physical substance and are held for use in the supply of services or for administering services and are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accrual's basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably.

The cost of enhancement work to existing assets is added to the appropriate fixed asset balance where the enhancement increases either the value or life of the asset. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits is charged as an expense when it is incurred.

The Authority has a de-minimis level of £10,000 whereby expenditure on individual capital schemes below this limit are charged to revenue expenditure.

Measurement

Assets are initially measured at cost comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Assets are carried in the Balance Sheet using the following measurement bases:

- Assets Under Construction (AUC) – historical cost.
- Operational Assets – including all fire stations, the Urban Search and Rescue Building and buildings at FSHQ - depreciated replacement cost
- Surplus land at Fire Service Head Quarters - market value.
- Non-property assets with short useful lives and/or low values – depreciated historical cost.
- Assets Held for Sale – market value

- Fire Appliances – due to their specialist nature these are valued at depreciated historical cost.
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use.

The authority formally values via an external valuations team, 20% of its assets each year and for those that are not formally re-valued in year a detailed evaluation of assets is undertaken to assess their current value by the Authority's external valuer. This is determined and set out within the letter of engagement between the Authority and external valuer.

Valuations are also carried out when there is a major natural disaster and/or there are major refurbishments.

Increases in value of Property, Plant and Equipment are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gain).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated in the Capital Adjustment Account.

Impairment

Assets are assessed at the end of each financial year as to whether there is any indication that an asset may be impaired.

Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where identified, the impairment losses are accounted for by:

- Where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for all fixed assets with a determinable finite life except for freehold land and assets under construction. Assets are depreciated on a straight-line basis. Buildings and motor vehicles are depreciated from their date they became operational. All other assets are depreciated

from 1st October in year of acquisition. Estimated lives for new assets can vary but are generally as follows:

- New Buildings and Refurbishments 21-50 years
- Vehicles and Operational Equipment 5-13 years
- Fixtures and Fittings 10 years
- Computer Equipment 5 years

From 2019/20, estimated lives for all new appliances is 13 years.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation

For those assets where the cost of the component parts is significant, they are depreciated separately from the rest of the asset. The Authority has a £500,000 de-minimis level on the net book value which means that if the carrying value of the asset is lower than this de Minimis the asset is not componentised. For those assets that are assessed for componentisation each component must represent 25% of the total cost of the asset or the depreciation charges must be significant to the charge if componentisation was not used. The componentisation of an asset is also reviewed if the asset has significant enhancement expenditure during the year, is purchased/built from new and also during the formal 5 yearly property valuations.

Disposals and Non-Current Assets Held for Sale

Once Management has made the decision that an asset has become surplus to requirements and it is being actively marketed for sale it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell.

Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on the Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

When an asset is disposed of, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts.

The written off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

There is a formal disposal process in place that departments complete when assets are disposed of to ensure that the asset register is complete.

Unusual or Material Charges or Credits in the Accounts

These are items that due to their nature and/or value require separate disclosure. Details of unusual or material charges or credits in the Accounts for 2020/21 are shown in Note 6.

Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year the Authority becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, considering relevant risks and uncertainties.

When payments are made, they are charged to the provision carried in the Balance Sheet.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Reserves

These are amounts set aside for purposes falling outside the definition of provisions. The Authority's reserves some of which can be used to support expenditure and others which have been established for other purposes. The General Fund Balance can be used to meet both capital and revenue expenditure, and a minimum level must be maintained for risk management purposes. For the Authority this is considered to be £5m. The Authority also has a number of earmarked reserves which are held for identified specific expenditure in the future. These are reviewed annually and those no longer required are transferred to the General Fund Balance.

The balances on the following reserves: Capital Adjustment Account, the Financial Instruments Adjustment Account, the Revaluation Reserve, the Pension Reserve, and the Collection Fund Adjustment Account cannot be used for future expenditure.

Revenue Expenditure Funded from Capital under Statute

This represents expenditure which may properly be capitalised under statutory provisions but which does not represent fixed assets. The expenditure is written off to revenue in the year it is incurred and an adjustment is made on the statement of General Fund Balance for the same amount so that there is no impact on council tax. The Authority uses this approach for the installation of smoke and carbon monoxide alarms within premises.

Value Added Tax

VAT is included in the accounts only to the extent that it is irrecoverable and therefore charged to service expenditure as appropriate. VAT receivable is excluded from income.

Council Tax and Business Rates Income

Billing Authorities in England are currently required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and the Business Rates Retention Scheme. In its capacity as a billing authority, an authority acts as an agent - it collects and distributes council tax and business rates income on behalf of itself and other major preceptors such as the Fire Authority.

Council tax and business rates income collected by billing authorities is credited to their Collection Fund and represents accrued income for the year. Regulations determine when this income should be released from the Collection Fund and transferred to the General Fund of the billing authority and other major preceptors (which in turn is credited to their General Funds). The amount credited under these regulations is the authority's precept and income from the Business Rates Retention Scheme for the year, plus the authority's share of the surplus or deficit on the collection fund for the previous year.

The income which must be included in the Comprehensive Income and Expenditure statement is the accrued income for the year and not the actual income received in the year. Any difference between these figures is charged to the Collection Fund Adjustment Account which is held on the Balance Sheet and is included in the Movement of Reserves Statement. This ensures that the difference between the accrued income and the actual income received does not impact on the General Fund.

Since the collecting Authority is collecting income on behalf of the Fire Authority, then the Fire Authority must also share in any surplus or deficit on collection.

The Authority therefore makes provision for the following items in its Balance Sheet at the financial year end:

- Debtors for the Authority's share of Council Tax and Business Rates Retention arrears at 31 March 2021.
- Provision for impairments of debtors in relation to Council Tax and Business Rates Retention arrears as at 31 March 2021.
- Income in advance from Council Tax and Business Rate payers who have paid their bills early.
- Creditor provision where the billing authorities have over-collected council tax and business rates income in year compared to the value of amounts actually paid over to the Authority.
- Creditor provision for appeals by business rate payers who disagree with the valuation of their premises for business rates purposes.

The relationship with each billing Authority is held within the Balance Sheet as a net debtor or creditor to the Authority.



OFFICIAL

Internal Audit Annual Report 2020 - 21

Audit Committee

Date: 23 April 2021

Agenda Item:

9

Submitted By: Chief Finance and Procurement Officer

Purpose

To seek Members' endorsement of the Chief Finance and Procurement Officer's conclusion as to the effectiveness of the system of internal audit. To note the audit opinion on risk management and the internal control environment during 2020/21.

Recommendations

- a) That Members endorse the Chief Finance & Procurement Officer's conclusion as to the effectiveness of the system of internal audit.
- b) Members note the audit opinion on governance, risk management arrangements and the internal control environment, thereby providing assurance for the Annual Governance Statement 2020/21.
- c) Members approve the 2021/22 Audit Charter and Strategy

Summary

The Chief Finance & Procurement Officer concludes the Authority's systems of internal audit are effective.

This report concludes that the Authority's governance, risk management arrangements and internal control environment were effective and robust during the financial year to 31 March 2021.

Local Government (Access to information) Act 1972

Exemption Category: None

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Background papers open to inspection: Internal Audit Reports 2020/21

Annexes: Annex A – Audit Charter and Strategy
Annex B – Summary of Audit coverage

1 Introduction

- 1.1 The Authority is required (by the Accounts & Audit Regulations 2015) to undertake an annual review of the effectiveness of its system of internal control which
- facilitates the effective exercise of its functions and the achievement of its aims and objectives;
 - ensure that the financial and operational management of the Authority is effective; and
 - incorporates effective arrangements for the management of risk.
- and includes undertaking an effective internal audit to evaluate the effectiveness of its risk management, control, and governance processes, taking into account Public Sector Internal Auditing Standards (PSIAS) and Code of Ethics.
- 1.2 The annual self-assessment has confirmed that the matters arising last year have been actioned and the overall level of compliance has continued to be maintained.
- 1.3 Coupled with the analysis of the performance of the internal audit function against its performance indicators and quality assurance process and delivery of the 2020/21 Revised Audit Plan as far as possible, the Chief Finance & Procurement Officer has used this data in formulating her assessment of the Authority's system of internal audit to conclude the degree of reliance can be placed on its work and opinion on the internal control environment.
- 1.4 In accordance with best practice the annual review of the Audit Charter and Strategy has been conducted and confirmed it remains fit for purpose and no changes are proposed.
- 1.5 This report then provides an opinion on the adequacy and effectiveness of the Authority's governance, risk management system and internal control environment during the year, particularly in support of the Draft Annual Governance Statement that accompanies the Annual Accounts.
- 1.6 The opinion is drawn from the matters included in the Quarterly Reports to the Committee during the year on the audit opinions reached on the level of assurance concerning each risk, system or process controls examined.

2 Information

Effectiveness of the System of Internal Audit

- 2.1 The Covid 19 outbreak impacted upon the delivery of this year's original Audit Plan to the extent that it was necessary to devise and seek approval of a formal Revised Plan. Despite operational changes to established ways of working, staff absence due to Covid or self isolation and other pressures of work and priorities in these exceptional times, two thirds of the Revised Plan was completed by 31 March and all but one planned audit of the remainder should be completed by the end of April or shortly thereafter.
- 2.2 Therefore there is a sufficient body of evidence to provide a meaningful opinion on the overall internal control, governance, and risk management framework in these unprecedented times, albeit with a caveat that all work has been conducted on-line in accordance with national requirements over essential travel, and the planned scope of several audits has been curtailed and prioritised to fit with time available.
- 2.3 The Internal Audit function is included in the Financial Services Service Level Agreement with Kirklees Council which the Chief Finance & Procurement Officer has reviewed recently in conjunction with officers from the Council. The most recent benchmarking information from CIPFA, albeit increasingly dated, showed internal audit operations have been at approximately the lower quartile of costs (based on £m gross expenditure) compared with Metropolitan and Unitary authorities.
- 2.4 The annual self-assessment of compliance with the PSIAS for 2020/21 has confirmed the overall position was maintained last year.
- 2.5 As referred to above, the Audit Charter & Strategy (see Appendix 1) has been reviewed to ensure it continues to meet the needs of the Authority. The review has not identified any need for amendment or update, which its Members are content should be formally approved.
- 2.6 A summary of the performance of Internal Audit in delivering the Revised 2020/21 Plan as reported to the Audit Committee during the year is shown below:

Performance Indicators	20/21 Target	20/21 Actual
Audits completed within the planned time allowance	80%	100 %
Draft reports issued within 10 days of fieldwork completion	90%	91%
Client satisfaction in returned post audit questionnaires	90%	100%
Chargeable audit days (cumulative)	130	100
QA compliance sample checks – pass rate	90%	100%
Planned Audits Completed	15	10
Planned Audits in Progress		2
Planned Audits Postponed		1
Planned audit deferred by Management		2
Unplanned Audits Completed		0

- 2.7 A summary of plan delivery itself is shown as appendix 2, together with the opinion reached for each audit completed.
- 2.8 The positive working relationship with the previous external auditors has continued with Deloitte colleagues, to maximise the use of audit resources and ensure our mutual roles are fulfilled effectively.
- 2.9 Members may wish to endorse the positive opinion on the effectiveness of the system of internal audit and control reached by the Chief Finance & Procurement Officer.

3. Operational Information

- 3.1 The scope of activity is established by the Financial Procedure Rules, the Audit Charter & Strategy, and statements of operating practice.
- 3.2 In line with the Audit Strategy, assurance about the governance, risk management and internal control environment is obtained by the maintenance and delivery of a risk-based audit plan approved by Members. Planned work as revised during 2020/21 targeted areas of significant risk and where most value could be added, particularly on wider business and governance controls.
- 3.3 Areas of significant risk are determined by the Authority through its risk management process and in particular the Corporate Risk Matrix. Review of this area accounts for approximately 50% of available audit resources, the remaining 50% continued to relate to the review of key financial systems and processes.
- 3.4 Each audit concludes with an opinion about the level of assurance derived on the adequacy and effectiveness of the system, process or location concerned at the time of the audit, based upon the management of risk and the adequacy and operation of financial and other controls. The approach involves the follow up of any activities about which less than "Adequate Assurance" is given, as a means of seeking to ensure that the work carried out by Internal Audit maximises the chances of improving the Authority's control environment.
- 3.5 The Audit Committee has previously agreed definitions of the different levels of assurance given and how these are derived from audit recommendations. Implementation of the agreed recommendations by management should provide for a satisfactory degree of control in all cases.
- 3.6 The outcome of individual audits is summarised quarterly and reported to the Audit Committee for consideration. These reports also include action taken by management regarding the implementation of any agreed key recommendations.

4. Summary of Audit Outcomes in 2020/21

- 4.1 The agreed Audit Plan as revised for 2020/21 included 130 days of planned work in the following main areas:
 - financial system and process audits,
 - main business and governance risks and controls,
 - follow up audits, and
 - ongoing project assurance to the
Emergency Services Mobile Communication Project Board

- 4.2 Liaison with the Chief Finance & Procurement Officer throughout the year ensures that internal audit work undertaken continues to focus on the high-risk areas and is reflective of any new developments or particular areas of concern so as to ensure the most appropriate use of internal audit resources. Appendix 2 provides a summary of the audits undertaken and status reached.
- 4.3 At the time of writing 10 of 15 planned audits had been completed with a further 2 in progress and 2 deferred with management into 2021/22. Apart from the review of facilities management commissioned by management, each planned audit performed during the year concluded with a positive Assurance opinion.
- 4.4 An original audit of Maintenance of Operational Competence and other mandatory training in 2018/19 supported management's belief that the recording system was inadequate and not fit for purpose and produced a Limited Assurance opinion. Remediation of this position required a new software application, either purchased directly or developed in-house.
- 4.5 As undertaking and recording of training is a key management control action for many of the highest scoring risks in the Corporate Risk Matrix, the shortcomings in the recording system necessarily impacted on the robustness of the risk management arrangements, as a lack of clarity and doubts over the reliability of management information to evidence who has been trained, when and with what outcome was a key concern.
- 4.6 An in-house IT solution has since been devised and a follow up of the arrangements found that it addressed the concerns raised and a positive opinion was concluded. The ongoing adequacy of the application will be monitored through the ongoing delivery of audits of the controls including training to manage the key risks faced by the Authority.
- 4.7 The Authority's risk management arrangements have been considered in individual pieces of audit work, whereby management activity to address particular business risks, as recorded on the Corporate Risk Matrix, has been assessed. These audits all concluded with positive assurance opinions and conclusions that management controls to address the key risks to the Authority were robust and operating effectively, noting the issue in 4.3 above. Where appropriate, management has agreed recommendations to further enhance the control environment.
- 4.8 The positive outcome and lack of any major findings from the National Fraud Initiative 2020/21 provided overall assurance about the Authority's governance arrangements and culture.
- 4.9 In accordance with our commitment to provide help, assistance and add value, questions and issues raised by managers have been resolved, particularly in relation to advice/approval for authorisation of contracting matters, and to evaluation of potential suppliers. In addition, the Audit Plan is designed to be sufficiently flexible to accommodate any ad hoc requests for audit reviews.

5. Internal Audit in 2021/22 and beyond

- 5.1 Clearly at present there is still considerable uncertainty concerning how and to some extent when normality will return, and more usual audit work can resume. As ever, Internal Audit will continue to strive to reliably achieve planned audit work and to address Authority priorities and activities that will add value for the organisation, particularly supporting the roll out of revised procurement arrangements.
- 5.2 In addition, we will continue to develop the approach to organisational and business controls encompassed in the revised Audit Strategy to focus on areas of highest risk and thus to contribute to the level of assurance required by the Chief Fire Officer / Chief Executive, Chair of the Authority and Chief Finance & Procurement Officer in order to sign off the Annual Governance Statement.
- 5.3 Planned audit work agreed with management for 2021/22 includes a degree of catch up on reviewing controls to manage key business risks deferred due to Covid, plus the cross section of probity audits on key financial systems now due again.
- 5.4 The summary Draft Audit Plan for 2021/22 is set for approval at the meeting of 23 April.

6 Financial Implications

- 6.1 There are no financial implications associated with this report

7 Human Resource and Diversity Implications

- 7.1 There are no human resource and diversity implications associated with this report

8 Health, Safety and Wellbeing Implications

- 8.1 There are no health, safety and wellbeing implications associated with this report

9 Environmental Implications

- 9.1 There are no environmental implications associated with this report

10 Your Fire and Rescue Service Priorities

- 10.1 An effective internal audit system underpins all the fire and rescue service priorities

11 Conclusions

- 11.1 This report has summarised the main activities of Internal Audit during 2020/21, detailed information on which has been provided to this Committee during the year.
- 11.2 Audit work during the year and the annual self-assessment of PSIAS compliance provided sufficient evidence to demonstrate that overall, the system of internal audit is effective and has been undertaken in compliance with the PSIAS.
- 11.3 A review of the Authority's framework of governance, risk management and control, and business systems controls, has provided sufficient evidence and assurance that overall, each is robust and effective and that in the small number of occasions where it has been necessary, management have taken/agreed appropriate action to address weaknesses.
- 11.4 Overall, the Authority has a sound control environment, and no matters are brought to the attention of management as worthy of consideration for inclusion in the Annual Governance Statement for 2020/21 as a Significant Governance Issue.



West Yorkshire Fire & Rescue Authority

INTERNAL AUDIT CHARTER & STRATEGY

April 2021

1. Introduction

The Public Sector Internal Audit Standards (PSIAS) and Code of Ethics are mandatory guidance which state the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit's performance. These standards in local authorities are supplemented by additional guidance from CIPFA that has regulatory authority in this respect for local government in the UK.

The PSIAS require that there is a formal Internal Audit Charter defining its purpose, authority, and responsibilities, which must be consistent with its definition of internal audit, code of ethics and professional standards.

The Authority is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit advises the Authority on whether effective and efficient arrangements exist, cumulating in the annual Internal Audit opinion, which informs the Annual Governance Statement. Optimum benefit to the Authority arises when Internal Audit work in partnership with management to improve the control environment and assist in achieving objectives.

2. The Purpose of the Charter

The purpose of this Charter is to set out the nature, objectives, outcomes, and responsibility of the Internal Audit function.

3. Definition of Internal Audit

The PSIAS definition of Internal Audit is:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes”.

This definition goes beyond basic compliance by, where appropriate, evaluating and improving the effectiveness of risk, control, and governance arrangements.

4. Accountability and Reporting Lines

Internal Audit will report to the Audit Committee

- Quarterly on each piece of work completed in the period, the opinion arising from that work and performance of internal audit (achievement of the annual audit plan, issuing reports on time, completing work within time allocated, client satisfaction and quality assessment).
- Annually on the overall achievement and assessment of the Authority's internal audit work programme, including an opinion on the assurance arrangements, and on the overall risk environment and the overall planned work on assurance in the forthcoming year, plus any investigative and consultancy tasks. This will include an assessment on the availability of resources, and any impact this may have on the ability to assess the control environment.
- As necessary on any matter impacting on the overall integrity of the Authority's control environment, where any significant risk or threat to the organisation identified through audit assurance work has not been adequately addressed by management, or on any operational matter that seriously impacts on the delivery or resourcing of the internal audit function.

Internal Audit reports to all levels of management, with reporting of detailed operational work usually being to Directors. All Directors and the Chief Executive receive the full Authority wide summary of activity.

Operationally Internal Audit report to the Chief Finance & Procurement Officer but has the right to communicate directly with the Chief Fire Officer / Chief Executive as necessary, for example in relation to audit work on activities for which the Chief Finance & Procurement is responsible and ultimately with the Chair of the Audit Committee as necessary.

5. Scope of Internal Audit

Internal Audit's remit extends to the adequacy and effectiveness of the entire control environment of the Authority as encompassed in the Audit Strategy as approved by the Audit Committee. It

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involves the examination of all business processes to evaluate the adequacy, effectiveness and efficiency of control, governance, and risk management arrangements. It will assess the quality of performance in carrying out assigned responsibilities to achieve the Authority's objectives.

6. Responsibilities and Objectives of Internal Audit

The responsibilities and objectives of Internal Audit are as follows:

- To provide soundly based assurances to management on the adequacy and effectiveness of their internal control, risk and governance arrangements, including; ethics, information management and technology.
- To review, appraise and report on the extent to which the assets and interests of the Authority are accounted for and safeguarded from loss.
- To review, appraise and report on the suitability and reliability of financial and other management data and information.
- To assess the adequacy and effectiveness of the Authority's procurement, contract, and partnership arrangements.
- To assess the corporate risk management processes.
- To evaluate the risk of fraud and how it is managed and controlled. To provide corporate fraud and irregularity prevention, detection, and investigation services in accordance with the Anti-Fraud, Anti-Corruption and Anti-Bribery Strategy.
- To reach conclusions about the effectiveness of the Authority's control environment, and to recommend improvements to management.
- To contribute to assurances in relation to the robustness and reliability of internal controls and governance to support the Annual Governance Statement.
- To support the achievement of efficiency, value for money and effective change management.
- To provide advisory and consultancy services intended to add value and improve value for money, governance, risk management and control processes.

- To provide advice in respect of the development of new or significant changes to existing programmes and processes including the design of appropriate controls. This is usually through membership of groups, boards or working parties as well as direct contact with officers within directorates.
- To support effective procurement.
- To support activities of the Audit Committee to discharge its responsibilities.
- To support the Chief Finance & Procurement Officer and all senior management in meeting their corporate responsibilities.
- To monitor the implementation of agreed recommendations.
- To plan, manage and operate the internal audit function in an efficient and effective manner.

7. Organisational Independence of Internal Audit

An effective Internal Audit function must be independent, objective, and unbiased. To ensure this, Internal Audit will operate within a framework that allows:-

Unrestricted access to all the Authority's

- + employees
- + premises and assets
- + records, information, and data (in all forms)
- + contractors and partners

and to the Authority's External Audit provider.

As the Head of Audit & Risk, Kirklees Council has direct operational responsibility for the Insurance function and input into certain procurement functions that form part of the overall Financial Services SLA with Kirklees Council, one of the Audit Managers will assume the lead for internal audit for the Authority and report directly to the Chief Finance & Procurement Officer. This arrangement helps maintain independence and avoid any conflicts of interest. Except for these activities, the Internal Audit function has no responsibility for developing or implementing procedures or systems and does not prepare records or engage in processing functions or business activities.

As an outside provider, Internal Audit at Kirklees has the advantage of total segregation from line operations, so has no responsibility for developing or implementing procedures or systems and does not prepare records or engages in processing functions or business activities. If staff move from the Authority to Internal Audit they will not be involved in the audit of any system or process for which they had previous operational responsibility for a period of two years

Audit responsibilities are periodically rotated to avoid over-familiarity and complacency and also to provide for service continuity and resilience.

8. Ethical Standards

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined, working with honesty, diligence, and responsibility. They must always observe the law and respect and contribute to the legitimate and ethical objectives of the Authority.

Objectivity:

Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by:

taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment;

declaring any real or perceived interests on an annual basis, or at any time that they recognise any impairment to the objectivity.

accepting anything that may impair or be presumed to impair their professional judgement such as gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties.

disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review;

not using information obtained during the course of duties for personal gain and;

complying with the Bribery Act 2010

Confidentiality:

Internal Auditors must;

- act prudently when using information acquired in the course of their duties and protecting that information and;
- not use information (derived or obtained through their official role) for any personal gain.

Integrity:

In the conduct of audit work, Internal Audit staff will:

- comply with relevant professional standards of conduct and perform their work with honesty, diligence, and responsibility

Competency:

Internal Auditors are expected to be competent in their role by:

- possessing the knowledge, skills, and technical proficiency relevant to the performance of their duties;
- being skilled in dealing with people and communicating audit, risk management and related issues effectively;
- maintaining their technical competence through a programme of continuous professional development;
- exercising due professional care in performing their duties and;
- complying with all requirements of the PSIAS & Code of Ethics.

9. Relationships

Internal and external audit activities will be coordinated to help ensure the adequacy of overall audit coverage and to minimise duplication of effort. Periodic meetings and contact between internal and external audit are held to discuss matters of mutual interest. External Audit has full and free access to all internal audit plans, working papers and reports.

Where appropriate the Internal Audit function will obtain assurance from other internal and external review agencies that offer opinions or appropriate analysis of the Authority's functions or can otherwise contribute to the understanding of the overall risk profile and assurance environment.

The existence of Internal Audit does not diminish the responsibility of management to establish and maintain systems of internal control to ensure that activities are conducted in a secure, efficient, and well-ordered manner.

10. Arrangements for Anti-Fraud, Anti-Corruption & Anti-Bribery Work

The Anti-Fraud, Anti-Corruption and Anti-Bribery Strategy and other supporting fraud related policies set out the Authority's approach. The Policy requires the Chief Finance & Procurement Officer to be notified of all suspected or detected fraud, corruption, impropriety, or other irregularity, in order to inform the annual internal audit opinion and the risk-based plan.

Internal Audit's role in respect of fraud-related work is as follows:

- to advise the Chief Finance & Procurement Officer about the Corporate Anti-Fraud, Anti-Corruption and Anti-Bribery Strategy, and provide guidance for managers and Members;

- to co-ordinate the Authority's response to the biennial mandatory National Fraud Initiative (NFI) exercise;

- to contribute to the corporate counter fraud arrangements, and;

- to assume a lead role in the investigation of certain alleged irregularities. In some cases, whistleblowing or outcomes from routine work will lead to an initial investigation, outcomes of which will be discussed with management, and a way forward agreed involving an Internal Audit lead investigation. In other instances, irregularities are investigated by management with support from Internal Audit.

11. Authority of Internal Audit

The scope of Internal Audit allows for unrestricted coverage of all the Authority's activities and unrestricted access to all functions, records, data, personnel, premises, and assets of the Authority.

Internal Audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

Recipients of audit reports must respond within prescribed timeframes (draft reports within 2 weeks and final reports within 6 weeks).

All records, documentation and information accessed while undertaking internal audit activities are to be used solely for the conduct of these activities. All internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

12. Appropriate Resourcing of Internal Audit

At least annually, Internal Audit will submit to the Audit Committee an Internal Audit plan for review and approval. The plan will consist of a schedule of planned assurance and consultancy work (including some contingency) which will establish resource requirements for the next financial year. This will be balanced between resource requirement and capacity. The standard requires the Head of Audit to advise the Audit Committee if the amount of resources available compromises the ability to offer appropriate levels of assurance.

The internal audit plan is based on a risk-based assessment. As the internal auditor of Kirklees Council which provides the Authority's key financial systems, the audit plan is able to reflect a level of knowledge and assurance from all audit work on these areas to maximise coverage efficiency. The current Audit Strategy is to ensure that assurance coverage concentrates on those areas of highest risk in terms of potential exposure or likelihood of failure, covering both financial and other business risks and controls.

Any material variations from the approved Internal Audit plan are reported to the Audit Committee.

13. Assurances Provided to Outside Parties

Internal Audit also undertakes work for Kirklees Council and Kirklees Neighbourhood Housing Ltd, the Council's housing provider, a wholly owned subsidiary of the Council. It also provides assurance work for Kirklees Active Leisure (a charitable trust that is Kirklees Council's leisure centre operator partner). Internal Audit provide assurances (where requested) about the bona fide of transactions and claims as required by government departments. Internal audit would if requested provide assurance to other partner public sector bodies as appropriate.

14. Assurances Obtained from Outside Parties

Internal Audit will obtain assurances from third parties where this is an appropriate form of assurance related to activity carried out on behalf of the Authority.

15 Assessment of Internal Audit

In addition to maintaining its own quality assurance process, performance against which will be reported quarterly to the Audit Committee, annually the Head of Internal Audit will conduct a self-assessment of ongoing compliance with the PSIAS which will be validated by the Chief Finance & Procurement Officer and reported to the Audit Committee.

At least every five years the Authority will conduct an external assessment of its internal audit compliance with PSIAS, the outcome of which will be reported to the Audit Committee, together with an Action Plan as necessary to address any issues arising.

16 Review

This Charter will be reviewed at least annually by the Audit Committee to ensure it remains relevant to the corporate objectives of the Authority and the operational needs of the Brigade.

Annex 1 Definitions alignment to the Public Sector Internal Audit Standards

For the purposes of Internal Audit activity, the term;

'board' refers to the Audit Committee.

'senior management' refers to the Directors, namely the Chief Fire Officer / Chief Executive, Deputy Chief, Assistant Chief, Chief Finance & Procurement Officer, and the Chief Employment Services Officer.

The PSIAS refer to the officer responsible for the Internal Audit function as the Chief Audit Executive. This role is undertaken by an Audit Manager at Kirklees Council.

Annex B – Summary of Audit Coverage 2020/21

Audit	Report Status	Assurance Opinion
Financial Systems & Risks <ul style="list-style-type: none"> • VAT • Purchasing Cards / Disbursement Account • Income Management under Covid 	 Final Final Final	 Adequate Adequate Substantial
Other Systems & Risks <ul style="list-style-type: none"> • Facilities Management • IT Software Licensing 	 Final Final	 Limited Substantial
Corporate Governance <ul style="list-style-type: none"> • National Fraud Initiative 2020/21 	 Draft	 Substantial
Business Risk Management <ul style="list-style-type: none"> • Data Protection Compliance • Risk of Assaults on Staff • Third Party Health & Safety Compliance 	 Final Final Final	 Substantial Substantial Adequate
Follow up Audits <ul style="list-style-type: none"> • Maintenance of Operational Competence & Other Mandatory Training 	 Final	 Substantial
Planned audits in progress <ul style="list-style-type: none"> • Mobile Phone Contract • Implementation of Grenfell Phase 1 Recommendations 	 WIP WIP	
Planned audits deferred <ul style="list-style-type: none"> • Pensions Administration • Implementation of HMIFRS Inspection 		

Recommendations		
Planned audit carried forward to 2021/22 <ul style="list-style-type: none">• Risk of faulty personal protective equipment		



OFFICIAL

Annual Governance Statement 2020 - 21

Audit Committee

Date: 23 April 2021

Agenda Item:

10

Submitted By: Chief Finance and Procurement Officer

Purpose	To present the Annual Governance Statement 2020/21
Recommendations	That Members approve the report
Summary	This report presents the Annual Governance Statement of the Authority for approval and inclusion in the 2020/21 Statement of Accounts.

Local Government (Access to information) Act 1972

Exemption Category: None

Contact Officer:

Alison Wood
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Background papers open to inspection: None

Annexes: Annual Governance Statement 2020 - 21

1 Introduction

- 1.1 The Authority is required to include its Annual Governance Statement within its Statement of Accounts.
- 1.2 The purpose of the Annual Governance Statement is to set out the formal procedures for governance within the Authority, and to report upon their effectiveness and to identify any significant issues. Although it forms part of the statement of accounts document it relates to the overall governance of the Authority rather than just the financial systems. The statement is prepared by the Chief Executive and his Management Board and is signed by the Chief Executive, the Chair of the Authority and the Chief Finance & Procurement Officer.
- 1.3 The Annual Governance Statement remains a live document which can be changed prior to final approval as part of the Statement of Accounts.

Information

2.1 The statement is split into five sections which explain how the system of governance works and what procedures and policies are in place to ensure that the systems remain effective. Detailed below is a brief explanation of each of the sections.

- i) **Scope of responsibility and Code of Corporate Governance**
Provides a definition of corporate governance which is the requirement the Authority has to conduct its business lawfully and in accordance with proper standards linked to the Nolan principles of Standards in Public Life.
- ii) **The Purpose of the Governance Framework** – provides a brief explanation of the purpose of the Governance Framework along with an assurance that the framework has been in place for the whole of the financial year 2020/21.
- iii) **The Governance Framework** – provides a detailed explanation of the core elements that make up the governance framework within West Yorkshire Fire & Rescue Authority and how they contribute to it achieving its ambition of ‘Making West Yorkshire Safer’.
- iv) **Review of Effectiveness** - The Authority has a responsibility to review the effectiveness of the systems of governance annually. Included within this section is a self-assessment of the effectiveness of the governance structure and how it is measured. It concludes with an assurance from the Management Board that it considers the current systems to be effective.
- v) **Significant Governance Issues**
The final section identifies the key areas of challenge to the systems of governance that the review of the governance has identified. The most significant are the impact of the West Yorkshire Mayor and expected reforms to the Fire and Rescue Service. The significant governance issues identified are;
1. Election of the West Yorkshire Mayor
 2. Reforms to Fire and Rescue Services
 3. Changes to Monitoring Officer Provision
 4. Performance Management System Implementation

In addition, the following governance issues remain from 2020/21

1. Central Government Funding uncertainty
2. Implications Matzak Court of Justice Ruling
3. Policing and Crime Act 2017

The process of self-assessment provides the Authority with the evidence to support Managements' conclusion that it is continuing to provide a high-quality service with the resources available.

2.2 Statement of Assurance

The Authority is required to produce an annual Statement of Assurance as part of the Fire and Rescue National Framework for England. The purpose of the statement is to provide independent assurance to communities and the Government that the service is being delivered efficiently and effectively. Whilst the Fire and Rescue National Framework sets out the Government's priorities and objectives for fire and rescue authorities in England, it does not prescribe operational matters as these are determined locally by fire and rescue authorities.

This Statement of Assurance provides assurance that WYFRA is providing an efficient, effective and value for money service to the community of West Yorkshire in its financial, governance and operational matters.

The Statement of Assurance is approved annually by the Fire Authority and is referenced in the Annual Governance Statement.

3 Financial Implications

- 3.1 There are no financial implications associated with this report

4 Human Resource and Diversity Implications

- 4.1 There are no human resources and diversity implications associated with this report

5 Health, Safety and Wellbeing Implications

- 5.1 There are no health, safety and wellbeing implications associated with this report.

6 Environmental Implications

- 6.1 There are no environmental implications associated with this report

7 Your Fire and Rescue Service Priorities

- 7.1 This report underpins all the Service's priorities as detailed in the "Your Fire and Rescue Service" document.

8 Conclusions

- 8.1 Overall, the Authority and its Management Board conclude that the systems and procedures provide effective systems of management control enabling the Authority to provide and an efficient, effective, and economic service to the public of West Yorkshire.

ANNUAL GOVERNANCE STATEMENT

SCOPE OF RESPONSIBILITY AND CODE OF CORPORATE GOVERNANCE

Corporate governance is a phrase used to describe the systems and procedures that are in place to ensure that business is conducted in accordance with the law and proper standards, and that public money is properly accounted for and used economically, efficiently, and effectively.

The Authority has a duty to achieve best value in the way it functions and to ensure that arrangements are in place to secure continuous improvement in all areas of service provision.

The Authority has set out its arrangements for the governance of its affairs in its Constitution (a copy of this can be found at www.westyorksfire.gov.uk) which includes the Authority's Code of Corporate Governance which is consistent with the principles of the CIPFA / SOLACE Framework Delivering Good Governance in Local Government (2016).

These core principles are:

1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
2. Ensuring openness and comprehensive stakeholder engagement
3. Defining outcomes in terms of sustainable economic, social, and environmental benefits
4. Determining the interventions necessary to optimise the achievement of the intended outcomes
5. Developing West Yorkshire Fire and Rescue capacity, including the capability of its leadership and the individuals within it
6. Managing risks and performance through robust internal control and strong public financial management
7. Implementing good practices in transparency, reporting and audit to deliver effective accountability.

In publishing this statement, the Authority fulfils the requirement under regulation 4(2) of the Accounts and Audit Regulations 2015 and accompanies the 2020/21 Statement of Accounts.

It is a requirement to produce this statement under regulation 6(1) b of the Accounts and Audit (England) Regulations and that it is approved by Audit Committee in advance of them agreeing the Statement of Accounts.

By applying the principles within the Authority's own Code of Corporate Governance and applying the Nolan Principles of Standards in Public Life, the Authority commits to deliver its services with integrity, accountability, transparency, effectiveness, and inclusivity.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises systems and processes, and cultures and values, by which the Authority is directed and controlled. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The Authority acknowledges that it can never eliminate risk entirely from its operations and this statement explains the systems used to manage this risk to a reasonable level, a key element of which is the system of internal control.

The governance framework has been in place at West Yorkshire Fire and Rescue Authority for the year ending 31 March 2021 and will remain in place up to the date of the approval of the statement of accounts.

THE GOVERNANCE FRAMEWORK

Summarised below are some of the key elements of the governance framework:

Strategic Objectives and the Service Planning Process

The Authority's Ambition and Priorities are set out in Your Service 2020-2023. This document is the Authority's Integrated Risk Management Plan (IRMP) and is supported by the Workforce Plan and the Medium-Term Financial Plan, all of which are reviewed and approved annually by the Authority. These plans are published on the website at www.westyorksfire.gov.uk. The Authority's Ambition and Priorities are:

Ambition: 'Making West Yorkshire Safer'

Priorities:

- We will reduce the risks to the communities of West Yorkshire
- We will continue to develop ways of working which improve the safety and effectiveness of our fire fighters
- We will work efficiently to provide value for money and make the best use of reserves to provide an effective service
- We will be innovative and work smarter throughout the service
- We will invest in information and communication technology, digital and data, to deliver our service in smarter ways
- We will support, develop, and enable our people to be at their best
- We will use the Her Majesty's Inspectorate of Constabulary, Fire and Rescue Service (HMICFRS) assessment of "Good" in all areas as a foundation to implement our improvement action plan with the aim of delivering an outstanding service.
- We will promote environmentally friendly ways of working, reduce waste, and raise awareness amongst staff to both fight climate change and respond more effectively to incidents driven by extreme weather events
- We will actively look for opportunities to implement learning from the Grenfell inquiry to improve how we respond to high rise emergencies and other foreseeable risks
- We will continue working towards delivering a more inclusive work force, which reflects and serves the needs of the diverse communities of West Yorkshire.

These objectives form part of area plans, departmental plans, and station plans. There is an on-going system of monitoring and reporting achievement of the service Authority against its corporate aims with regular reports on progress monitored by senior management and the Authority through its committee structure. Copies of the plan are distributed to all fire stations and departments of the Authority.

The Internal Control Environment

Internal Control describes the systems and processes that ensure the Authority can achieve its objectives with integrity and in compliance with laws, regulations, and its own policies. They define the decision-making processes and the controls that are in place to monitor these

processes. The fundamentals include making sure that decisions are taken at the correct level and that there are clear separations of duty within the decision-making processes.

It covers the reliability of financial reporting and performance management against the achievement of the Authority's strategic goals.

The Authority's systems of internal control conform to the standards of financial governance set out in CIPFA statement of the role of the Chief Financial Officer in Local Government.

The Constitution

The Authority has a written constitution which is reviewed annually by the Management Board and is formally approved by the Authority at its Annual General Meeting. It is published on the website at (www.westyorksfire.gov.uk) and is included within the body of evidence which supports this statement. This document forms the basis of the Governance Framework and sets out the way the Authority is governed and is made up of the following documents:

- Authority committee standing orders and procedures
- The roles and responsibilities of the executive officers
- Access to information rules
- Contract standing orders
- Financial procedure rules
- Anti-fraud and corruption strategy
- Code of corporate governance
- Members' code of conduct
- Officers' code of conduct
- Member v officer relations protocol
- Officers' employment rules
- Protocol regarding the use of Authority resources by Members
- Members' allowances
- Management structures
- Officer delegation scheme
- Complaints procedure
- Whistle blowing policy

The Committee Structure

The constitution sets out the Framework under which the Authority is governed. It sets out in detail the composition of the Authority, the role and functions of the elected members, the roles and responsibilities of designated office holders and the roles, functions, and terms of reference of the Authority and its Committees.

The Authority has four standing committees each of which, along with the Authority, meet four times per year and an executive committee which deals with urgent business.

Human Resources Committee (11 Members)

This committee deals with all issues relating to the employment of staff including conditions of service, industrial relations, equal opportunities, and training.

Finance and Resources Committee (11 Members)

This committee is responsible for all issues relating to the Assets of the Authority. This includes Finance (including recommendation to the Authority in relation to the revenue budget, capital planning and precepts), Insurance, Treasury Management, buildings, land and property, and ICT. This committee receives regular reports on the financial performance of the Authority along with detailed updates on treasury management activity.

Audit Committee (6 Members)

This committee is established in accordance with CIPFA guidance 'Audit Committees – Practical Guidance for Local Authorities'. In addition to all matters relating to both internal and external audit, the committee is responsible for performance review and risk management and business continuity.

Community Safety Committee (11 Members)

This committee is responsible for the oversight of all aspects of service delivery, which includes the key areas of emergency response, fire protection and fire prevention. This covers responsibility for Integrated Risk Management Planning, national resilience support arrangements and shared services.

Executive Committee

The Executive Committee consists of 6 members which deals with any urgent matters.

The terms of reference of all the Authority's committees are available on the Authority's website. All meetings are open to the public and wherever possible items are considered within the public sessions of the meetings. In addition, each committee is recorded and is available on the authority's website for viewing (except for items under section 100A of the Local Government Act which are exempt from the public).

Copies of reports and minutes of all meetings are published on the Authority's website.

Management Structure

The Corporate Management Board is made up of the following Executive Officers who meet weekly:

- Chief Executive/Chief Fire Officer
- Deputy Chief Fire Officer / Director of Service Delivery
- Director of Service Support
- Chief Finance and Procurement Officer
- Chief Employment Services Officer

The Corporate Management Board is supported by a Management Team which, in addition to the Board members, includes senior officers from both the operational and non-operational sides of the organisation.

There is a close interaction between management and elected members based around a formal briefing process prior to each committee. Management also provide training and briefings for the elected members prior to their consideration of key issues such as the Medium-Term Financial Plan and the Integrated Risk Management Plan. Elected members newly appointed to the Fire Authority are provided with an induction on finance and governance and their roles and responsibilities.

There are several working groups which meet on a quarterly basis which include representatives from departments across the service, these groups are: Environmental Working, Establishment Planning, Information Governance, Capital Management, Risk Management and Diversity and Inclusion.

Established Policies, Procedures and Regulations

The Authority has compliance with established policies, procedures, laws and regulations, information regarding policies and procedures is held on the intranet and these are reviewed on a periodic basis. A staff survey is normally carried out once a year and an action plan is put in place to address any issues that are identified. The authority publishes on the web site, the Pay Policy Statement, Gender Pay Gap Results, procurement processes, contracts register and transparency information in relation to expenditure over £500 and procurement cards.

Customer surveys are routinely carried out after attendance at incidents and school visits. Every year the authority has an external assessment of its Customer Service Excellence standard, in 2020/21 the authority attained full compliance against all 57 standards of which 25 achieved compliance plus.

Tri-service Collaboration Board.

The Tri-Service Collaboration Board (TSCB) was established in 2017 and is supported by leading representatives of each blue-light service. The Board consists of the key political leaders of the organisations' including the Chair of the Fire Authority, Yorkshire Ambulance Service and the Police and Crime Commissioner supported by members of senior management. The aim and purpose of the TSCB is to act as an enabling forum to bring about closer working arrangements across all three emergency services in West Yorkshire. This formal agreement regulates the relationship between the three parties and provides opportunities for increased efficiency, effectiveness, and improved service delivery.

REVIEW OF EFFECTIVENESS

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance arrangements. The review process is on-going and is informed by the work of the Management Board, the Chief Finance and Procurement Officer, Internal Audit, External Audit, and other external assessors. In addition, the Authority is subject to an independent inspection by Her Majesty's Inspectorate for Constabulary and Fire and Rescue Services (HMICFRS). The results of the reviews are reported to the Authority through the committee structure.

A self-assessment of our effectiveness:

In maintaining and reviewing the effectiveness of the authority's governance arrangements the following have been considered

- **Integrated Risk Management Planning (IRMP)**

The Authority is systematically reviewing the service it provides throughout the county through the IRMP process. This process aims to improve community safety and wellbeing and reduce the risk of fires and other emergencies. The Authority maintains an integrated risk management model which bands the county into groups from very low to very high based on underlying risk. This information allows the Authority to proportionately allocate resources and evaluate service delivery performance against the level of risk. This is a revised methodology which builds on the risk management process which has transformed service delivery over the last 10 years.

Through this process, the Authority can continue to achieve its aim of making West Yorkshire safer.

Before the IRMP is approved by the Authority a process of public consultation on each proposal is carried out within the communities of West Yorkshire. This includes community meetings, drop-in sessions, information on the website, virtual meetings online and social media posts.

- **Effective Performance Management**

It is important that the Authority can measure its performance against its aims and objectives. The Authority has a well-established performance management structure which is focused on outcomes. The system is embedded throughout the organisation from individual Fire Station level through District Command to Authority wide achievement.

Each year the Community Safety Committee approves a set of district priority plans which set service delivery priorities for the coming year. Districts are also set a series of performance indicator targets for a variety of incident types that we attend. The methodology for setting the service delivery performance targets was approved by the Fire and Rescue Authority in December 2019. In 2020/21 local Station Action Plans were also produced and this allows local activity to be planned to support the priorities set within the district plans. The Performance Management framework was reviewed in 2020/21 to ensure that our data and intelligence can allow us to target the Authority's resources towards reducing risk across where the risk exist the five districts.

Performance against the district priorities is monitored within each district and reports are produced for consideration at the Safer Communities Programme Board before being presented to the Community Safety Committee which meets on a quarterly basis. Members of the Community Safety Committee are also encouraged to meet with their respective District Commander to discuss priorities, objectives within the local district priorities plan and performance targets.

It should be noted that the performance targets for 2021/22, which are ordinarily set using a rolling 3-year average methodology, will not include figures arising from the 2020/21 performance year. The Authority note that a number of reporting lines in respect of incidents were skewed because of the lockdown related to the pandemic, is has therefore been agreed that the year will be discounted in respect of informing the target setting process.

This system of monitoring has proved successful in measuring performance and provides the vital evidence needed to support the Integrated Risk Management Plan.

- **Effective Financial Planning and Management**

The Government's austerity measures have seen the Fire Authority lose £26m in government grant from the start of the spending review in 2011/12 to the end of 2020/21. The Authority has from the start taken a strategic approach to this grant loss matching changes to service delivery through the Integrated Risk Management Plan to the reducing resources. This planning coupled with significant capital investment has seen the construction of 7 new fire stations to replace 11 old fire stations delivering over £31m in ongoing revenue savings.

The Chief Finance and Procurement Officer presents to the Finance and Resources Committee every quarter an update on the financial position of the Authority covering both revenue and capital expenditure. Training on finance is also provided to new members in June and prior to the approval of the annual budget in February.

The finance team have developed a comprehensive expenditure monitoring system delivering financial information and forecasts from individual cost centre level through the organisation to senior management and the Fire Authority. A red, amber, green (RAG) rating system has been introduced both for revenue and capital budget monitoring whereby budget holders must provide written explanation to the Chief Finance and Procurement Officer if they are projected to be 5% over or under budget at the end of the financial year.

The authority maintains a strong record of financial management which is evidenced by its track record of maintaining expenditure within the approved budget.

The Financial Management Code, a Chartered Institute for Public Finance and Accountancy (CIPFA) document, sets out the standards of financial management for local authorities which is designed to support good practice and to assist local authorities demonstrate their financial sustainability. The requirement is that this is fully implemented by local authorities including fire and rescue services during 2021/22. The code is split into six overarching principles: leadership, accountability, transparency, standards, assurance, and sustainability which is then broken down into seventeen separate standards. Adherence to the code will be assessed during 2021/22 and if shortfalls are identified they will be addressed, and a solution will be implemented accordingly.

- **Performance Management Framework**

The performance management framework system describes how the service will report performance externally and within the service. It ensures that our staff and key stakeholders will have access to appropriate performance information to fulfil their duties, support sound evidence-led decision making which will lead to smarter working and improved evaluation. It operates a tiered approach which allows performance to be managed at organisational, functional, team and individual level.

An annual organisational planning day takes place every year where the planning cycle provides an indication of when activities should ideally happen as well as key milestone points.

The approved change activities that fall out of the planning process become programmes or projects of varying scale, some of which are managed formally under the WYFRS Project Portfolio Management (PPM) Framework, with lower change often being managed within departments and/or districts. Those managed through the framework are subject to scrutiny

at the Change Management Board where reports are presented on progress. The Programme of Change report is then summarised and reported for consideration to members at Full Authority Committee.

- **Effective Arrangements for Accountability**

The Authority can demonstrate robust systems of accountability both to elected members and the public. The district command structure, which mirrors the 5 local authorities' / district boundaries in West Yorkshire, provide for close interaction with the local district councils on service delivery and joint working.

The Authority presents its budget proposals to the district councils and provides representatives of the business community with the opportunity to comment on the budget proposals.

The Authority has a Service Improvement and Assurance Team (SIAT). The SIAT applies the Service Assurance Framework to provide high level assurance to Management Board and the Fire Authority through implementation of the service assurance process. Each team and department making up West Yorkshire Fire & Rescue Service (WYFRS) are required to complete a self-assessment which involves answering and providing evidence to a range of questions that include performance indicators, policy compliance, financial controls, elements contributing to operational effectiveness, internal and external audit review. This is then independently reviewed by the SIAT and reported to management to enable them to make an informed judgement regarding the overall performance of WYFRS. This judgement is then summarised in the Annual Statement of Assurance which is published on the WYFRS website in accordance with the requirements of the National Fire and Rescue Framework.

- **Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS)**

In 2017 Her Majesty's Inspectorate of Constabulary extended its remit to include inspections of England's Fire and Rescue Services. The aim of HMICFRS is to monitor and report on the efficiency and effectiveness of FRSs with the aim of encouraging improvement. HMICFRS assesses services in 11 key areas and grades them from inadequate, requires improvement, good and up to outstanding. HMICFRS undertook its first inspection of WYFRS in June 2019. The inspection was focussed on efficiency, effectiveness and how well it looks after its people. The result of the WYFRS inspection was released in December 2019 and reported that the service was performing at a good standard in each of the 11 assessed areas.

Due to the Covid19 pandemic, the second round of inspections was postponed from Autumn 2020 and will now be undertaken in September 2021. Round two inspections will consider the direction of travel from the first inspection and will look for evidence of improvement from this first baseline assessment.

A separate non graded Covid19 inspection of all fire and rescue services was undertaken in Autumn 2020 which identified that overall fire and rescue services rose to the challenge of the pandemic.

- **Internal Audit**

The Authority procures its internal audit service from Kirklees Council which complies with Public Sector Internal Audit Standards. This not only provides better value for money but also gives the Authority access to specialist auditors and gives an added element of independence.

The work of internal audit extends well beyond the normal probity audits and includes examination of the key financial systems as well as verification work on the Authority's business continuity plan.

The internal audit plan is approved initially by Management Board and then at Audit Committee in April. In this unprecedented year it was necessary to agree a revised Audit Plan during Summer 2020 in recognition of the impact of lockdown and subsequent restrictions on movement on the delivery of the original plan. All internal audit reports include an assessment of the internal controls and a prioritised action plan to address any areas needing improvement. If an internal audit receives a limited assurance a follow up audit is carried out within the next twelve months to ensure that actions have been implemented. The Internal Audit Annual Report is presented to Audit Committee which gives an overview on the effectiveness of internal audit and provides an opinion on governance, risk management the management of the internal control environment during the last financial year.

In addition, the SIAT monitors and reviews the actions from internal audit reports in liaison with the departmental manager to ensure that recommendations are implemented.

- **Information Management Framework**

Information governance is a framework to bring together all the requirements, standards and best practice that apply to the handling of information.

The Authority is required to comply with legislation including the Data Protection Act 2018 and the General Data Protection Regulation which regulate information data processing, storage, and access rights. The Authority has appointed a Management Board Member (the Chief Employment Services Officer) as the statutory Data Protection Officer who in conjunction with other officers and working groups oversees the development of best practice policies and procedures aimed at ensuring compliance with the legislative requirements.

The information governance and security group which is chaired by the authority's Chief Employment Services Officer and supported by the Corporate Information Management Group meets quarterly and is attended by senior managers within the organisation. This group is responsible for setting and reviewing policies, standards, procedures, best practices, controls, risk management and ensure compliance with them.

Statement of Assurance

The Authority is required to produce an annual Statement of Assurance as part of the Fire and Rescue National Framework for England. The purpose of the statement is to provide independent assurance to communities and the Government that the service is being delivered efficiently and effectively. Whilst the Fire and Rescue National Framework sets out the Government's priorities and objectives for fire and rescue authorities in England, it does not prescribe operational matters as these are determined locally by fire and rescue authorities.

This Statement of Assurance provides assurance that WYFRA is providing an efficient, effective and value for money service to the community of West Yorkshire in its financial, governance and operational matters. The Statement of Assurance is published on the Authority's website which includes links to the key documents.

Conclusion

Overall, the Authority and its Management Board conclude that the systems and procedures provide effective systems of management control enabling the Authority to provide and efficient, effective, and economic service to the public of West Yorkshire.

- **External Review**

Following the Public Sector Audit Appointments tender process, Deloitte LLP have been the Authority's external auditors since the 1st April 2018.

Deloitte LLP will provide an external review of systems and procedures as part of their role as the appointed external auditors to the Authority which will include:

- The audit of the financial statements 2020/21
- Reach a conclusion on the economy, efficiency, and effectiveness in the use of resources, the value for money (VFM) conclusion
- Review the Whole of Government Accounts return

A new Code of Audit Practice came into force on the 1st April 2020 which has introduced new extended reporting arrangements for Value for Money for financial statements from 2020/21. The new requirement requires auditors to structure their commentary on Value for Money arrangements under three specified reporting criteria: financial sustainability, governance and improving economy, efficiency, and effectiveness.

- **Compliance**

The systems and reviews detailed in the annual governance statement demonstrate that the Authority's assurance arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010). They also demonstrate the systems that are in place to enable the Monitoring Officer and Chief Finance and Procurement Officer to discharge their functions in relation to the governance of the Authority.

SIGNIFICANT GOVERNANCE ISSUES

The CIPFA guidance suggests that the following criteria should be applied when judging what may constitute a significant control issue:

- The issue has seriously prejudiced or prevented achievement of a principal objective
- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business
- The issue has led to a material impact on the accounts
- The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation
- The issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer

Review of Governance Issues Identified in the previous Annual Governance Statement

There remains uncertainty regarding central government funding, three scenarios were presented to the Fire Authority in February 2021 which were a 0%, 5% and 10% cut to funding from April 2022. A full comprehensive spending review is scheduled to commence in Summer 2021 which is expected to result in a multi-year funding deal from April 2022 onwards.

A recent judgement relating to the working hours and related payments of a Belgium on call firefighter (Matzak) could have implications for the fire authority. The ruling has the potential to impact adversely on current arrangements for the effective provision and affordable cost of on call services. The Authority along with every other fire and rescue service is working with the Local Government Association in seeking advice from Leading Council and reviewing potential options for changing current arrangements to mitigate against the impact of the

ruling. However, due to the current uncertainty it is considered appropriate to flag up the risk of potential extra costs which have yet to be fully identified. This remains a significant risk to the Authority.

The Police and Crime Act 2017 imposes a statutory requirement on emergency services to collaborate to improve public safety and deliver better efficiency. The emergency services in West Yorkshire have established a joint body to review areas of collaboration this is yet to deliver any significant change. This process is dependent on the services agreeing joint priorities and delivering change with willing partners and thus continues to remain a significant governance issue.

The following significant issues identified in 2019/20 have been addressed during 2020/21:

Covid19 was identified as a significant governance issue in 2020/21, although the authority has had to adopt new ways of working which include the conduct of committee meetings virtually and some non-operational staff working from home, this is now considered business as usual and thus not considered a significant governance issue.

The Authority introduced a new system to record the competence of operational staff during 2020/21, following implementation, this was subject to an internal audit which achieved substantial assurance. The audit concluded that the new system provided an effective mechanism to enable the Authority to gain the necessary assurance that operational training and assessments are being maintained in line with requirements.

The second HMICFRS inspection was due in Autumn 2020, which was a short turnaround from the Authority's first inspection. Due to the pandemic, this has been postponed to September 2021. This has meant that the authority has been able to prepare and put in place an action plan to address the areas of improvement that were identified in the first report.

During 2020/21, lean working has been embedded and has resulted in the streamlining of some procedures and ways of working.

The implementation of the performance management framework has ensured that organisation planning is fully integrated within the organisation.

Significant Governance Issues 2021/22

Whilst no significant weaknesses have been identified as per the CIPFA guidance list, the following have been identified as potential issues for the forthcoming year:

- **Election of the West Yorkshire Mayor**

The residents of West Yorkshire will be invited to vote for a directly elected mayor of West Yorkshire on the 6th May, enabled by the Cities and Local Government Devolution Act 2016 which was announced in the March 2020 budget. The mayor will chair and lead the West Yorkshire Combined Authority and will subsume the office and powers of the West Yorkshire Police and Crime Commissioner. The governance impact on West Yorkshire Fire and Rescue has yet to be determined.

- **Reforms to Fire and Rescue Services**

The HMICRFS State of Fire and Rescue Reports, published in January 2020 and March 2021, made six national recommendations for reform to the fire and rescue service, which may have an impact on governance, these are:

1. Fire and rescue services should establish a common set of definitions and standards to cover key priority areas
2. The sector should review and determine the role of the fire and rescue service and the role of its employees
3. The sector should review how effectively pay and conditions are determined
4. The Home Office should provide with Chief Fire Officers with operational independence.
5. Introduction of a code of ethics.
6. The Home Office should address the deficit in the fire sector's national capacity and capability to support change.

The Home Office will be launching a consultative White Paper on fire reform in late 2021 which will be used to set out the reform agenda in further detail.

- **Changes to Monitoring Officer Provision**

From the 1st April the Authority's Monitoring Officer is to be provided through a Service Level Agreement with Calderdale Metropolitan Borough Council. The role of Monitoring Officer has previously been undertaken by the Chief Legal and Governance Officer, who was a direct employee of the Authority. Although no immediate governance issues have been identified from this change, the provision of the Monitoring Officer is now external to the organisation.

- **Performance Management System**

The Authority is currently developing a performance management system, this project is in its infancy and it due to be fully implemented within the next 24 months. This system will support the performance management framework information by developing a suite of key performance indicators which will be monitored, analysed, reported, and reviewed at set intervals to inform decision making and deliver benefits to the organisation.

Summary

The Fire Authority continues to operate in a difficult environment, and we accept that the above issues present the Authority and its Management Board with a major challenge. However, previous performance demonstrates the ability of the Authority and its management to manage in challenging times. We are therefore confident that we can continue to deliver a high-quality service whilst driving through major changes to the organisation, and that the systems are in place to further enhance our governance arrangements.

John Roberts

Chief Fire Officer / Chief Executive

Alison Wood

Chief Finance and Procurement Officer

Cllr O'Donovan

Chair West Yorkshire Fire & Rescue Authority



OFFICIAL

Internal Audit Plan 2021 - 22

Audit Committee

Date: 23 April 2021

Agenda Item:

11

Submitted By: Chief Finance and Procurement Officer

Purpose	To present the details of the Internal Audit Plan 2021/22
Recommendations	That Members note the content of the report and approve the internal audit plan for 2021/22.
Summary	This report provides an outline of the proposed programme of audit work for 2021/22.

Local Government (Access to information) Act 1972

Exemption Category: None

Contact Officer: Simon Straker, Internal Audit, Kirklees MC
E: simon.straker@kirklees.gov.uk

Background papers open to inspection: None

Annexes: Internal Audit Plan 2021 - 22

1 Introduction

- 1.1 The Chief Finance and Procurement Officer has a statutory duty to provide a continuous and effective internal audit for the Authority. Internal Audit is provided as one of a number of financial services provided under a Service Level Agreement with Kirklees Council which determines that 160 days of audit time is allocated to the Authority each financial year. Any variations in the actual number of audit days provided is rectified by the issue of a credit note invoice against the Service Level Agreement.

2 Information

- 2.1 Internal audit work is undertaken to provide an independent annual opinion to the Authority on its risk management matrix and internal control environment, which then plays a significant role in informing the Annual Governance Statement, signed by the Chief Executive, Chair of the Authority and the Chief Finance and Procurement Officer, that forms part of the Statement of Accounts.
- 2.2 The audit planning process is based upon an extrapolation from a five-year strategic plan, during which all activities are reviewed at varying frequencies based upon the level of risk attached to each system, activity, or location.

A number of other factors are then taken into account, consideration is placed upon the Authority's Risk Matrix and management processes and the requirements of the external auditor, who places some reliance on the work of internal audit to inform their opinion on the Statement of Accounts accordingly.

Finally, the views and the concerns of the Chief Finance and Procurement Officer and Directors are incorporated to produce the Internal Audit Plan for 2021/22.

- 2.3 The Annual Plan for 2021/22 includes reviews of the Authority's internal control systems, five risks from the Risk Management matrix and a contingency provision for any special investigations that may be required. The plan also includes audits that were deferred from 2020/21 due to the Covid19 pandemic.

In addition, we will continue to develop the approach to organisational and business controls encompassed in the revised Audit Strategy to focus on areas of highest risk and thus to contribute to the level of assurance required by the Chief Fire Officer / Chief Executive, Chair of the Authority and Chief Finance & Procurement Officer in order to sign off the Annual Governance Statement.

3 Financial Implications

- 3.1 The internal audit service is provided by Kirklees Council through a Service Level Agreement at a cost of £47,430 in 2021/22 which is provision for 160 days of audit work.

4 Human Resource and Diversity Implications

- 4.1 There are no human resources and diversity implications associated with this report

5 Health, Safety and Wellbeing Implications

- 5.1 There are no health, safety and wellbeing implications associated with this report.

6 Environmental Implications

6.1 There are no environmental implications associated with this report.

7 Your Fire and Rescue Service Priorities

7.1 This report links to all the Service's priorities as detailed in the "Your Fire and Rescue Service" document.

8 Conclusions

8.1 This report requires Members to approve the Internal Audit Plan for 2021/22, the progress of which will be reported to members on a quarterly basis to audit committee.



West Yorkshire
Fire & Rescue Authority

Internal Audit Plan

2021/22

Background

The Chief Finance & Procurement Officer has a statutory duty to provide a continuous and effective internal audit. Internal Audit is provided as one of a number of financial services under a SLA with Kirklees Council.

Kirklees Internal Audit is delivered in accordance with the Public Sector Internal Audit Standards which require Internal Audit to provide an independent annual assurance opinion to the Management Board and the Audit Committee on the systems and environment for

- internal control,
- governance and
- risk management

This opinion then plays a significant role in informing the Annual Governance Statement, signed by the Chief Fire Officer / Chief Executive and the Chair of the Authority, which forms part of the Annual Accounts.

The audit planning process is risk based using an extrapolation from a strategic plan, which includes all activities undertaken by the Authority and these are reviewed at varying frequencies based upon the level of risk attached to each system, activity or location. A number of other factors are then taken into account. Consideration is placed upon the Authority's Risk Matrix and management processes and the requirements of the external auditor, who may place some reliance on internal audit work to inform their opinion on the Annual Accounts accordingly. Finally, the views and concerns of the Chief Finance & Procurement Officer and Directors are incorporated to produce an annual plan.

The Audit Strategy approved by Committee, determined that an on average roughly 50% of audit time will be spent reviewing business risks and controls as identified in the Corporate Matrix, the remaining days being allocated between specific areas of activity and a contingency provision. The Annual Plan for 2021/22 includes 13 audits.

The Risk Management Strategy Group has been consulted about the priority of reviewing the remaining risks not covered so far and this is reflected in the proposal overleaf. Coverage of these will result in over 70% of the Authority's business risks being subject to ongoing audit review, with the remainder considered unsuitable for audit review (e.g. operationally complex, or low risk - with a risk factor score less than 6).

The suggested areas of activity for next year are shown overleaf, as well as those falling due which have been discounted. A scope and terms of reference, if required, will be agreed with the auditee prior to commencement of each audit.

Simon Straker
Audit Manager

WEST YORKSHIRE FIRE & RESCUE AUTHORITY

INTERNAL AUDIT PLAN 2021/22

Work B/fwd from Original 2020/21 Plan

Internal Control Systems

- Stores (deferred from 2019/20 at management request)

Risk Management Strategy / Risks & Controls

- (Risk 6, score 15) - Retained Duty System
- (Risk 17, score 12) - Asbestos in Authority Premises
- (Risk 19, score 12) – Severe Weather (non-flooding)
- (Risk 13, score 12) – Vehicle Accidents
- (Risk 26, score 12) - Contract Procedure Rule Compliance

Work B/fwd from Revised 2020/21 Plan

Risk Management Strategy / Risks & Controls

- (Risk 45, score 6) – Respiratory Protective Equipment

Governance

- Implementation of HMIFRS Inspection Recommendations

Work due in 2021/22

Internal Control Systems

- Payroll Key Controls (covering all types of staff)
- Additional Responsibility Allowances
- Treasury Management
- Bank Reconciliation
- HR & Rostering System Implementation

Risk Management Strategy / Risks & Controls

Audits due this year deferred due to those outstanding from 2020/21.

Contingency

- ESMCP – Assurance to Project Board
- Follow up audits as required
- Advice & Support as required



Planning report to the Audit Committee for the year ending 31 March 2021

Issued on 8 April for the Audit Committee on 23 April 2021

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Director Introduction

The key messages in this report:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our planning report to the Audit Committee (the 'Committee') for the 2021 audit of West Yorkshire Fire & Rescue Authority (the 'Authority'). I would like to draw your attention to the key messages of this paper:

Audit Scope

Our principal audit objective is to obtain sufficient, relevant and reliable audit evidence to enable us to express an opinion on the statutory accounts of the Authority prepared in accordance with the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA for the period ending 31 March 2021. Our responsibilities as auditor, and the responsibilities of the Authority, are set out in the 'PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies' published by Public Sector Audit Appointments Limited.

Audit Plan

We have updated our understanding of the Authority including discussion with management and review of relevant documentation from across the Authority.

Based on these procedures, we have developed this plan in collaboration with the Authority to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the Authority.

Key Risks

We have taken an initial view as to the significant audit risks the Authority faces. These are presented as a summary

dashboard on page 10 and are consistent with the risks identified in the prior year.

Regulatory change

Our audit is carried out under the Code of Audit Practice issued by the National Audit Office (NAO).

We will update Management and the Committee with sector and technical updates as they arise.

Value for Money

The National Audit Office's 2020 Code of Audit Practice revises the scope of the required work of the auditor on bodies' arrangements to secure value for money, moving away from a binary conclusion on arrangements in the audit report to a narrative commentary in a new "Auditor's Annual Report" (which replaces the Annual Audit Letter). The new requirements in this area are discussed further on page 17.

Audit Quality

Audit quality is our number one priority. Our plan is compiled in conjunction with management and we are committed to delivering a high quality audit.

Paul Hewitson

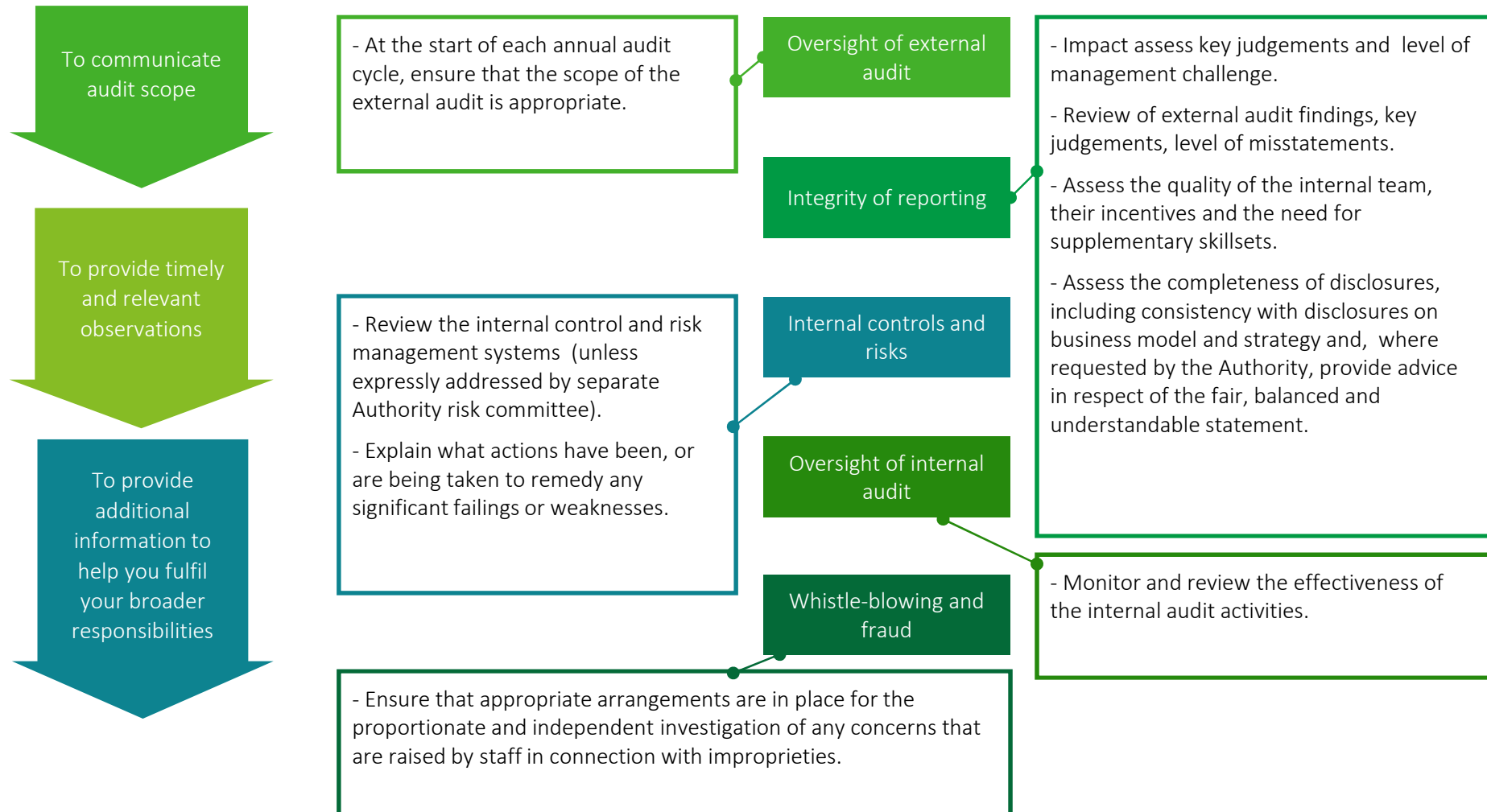
Audit Director

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

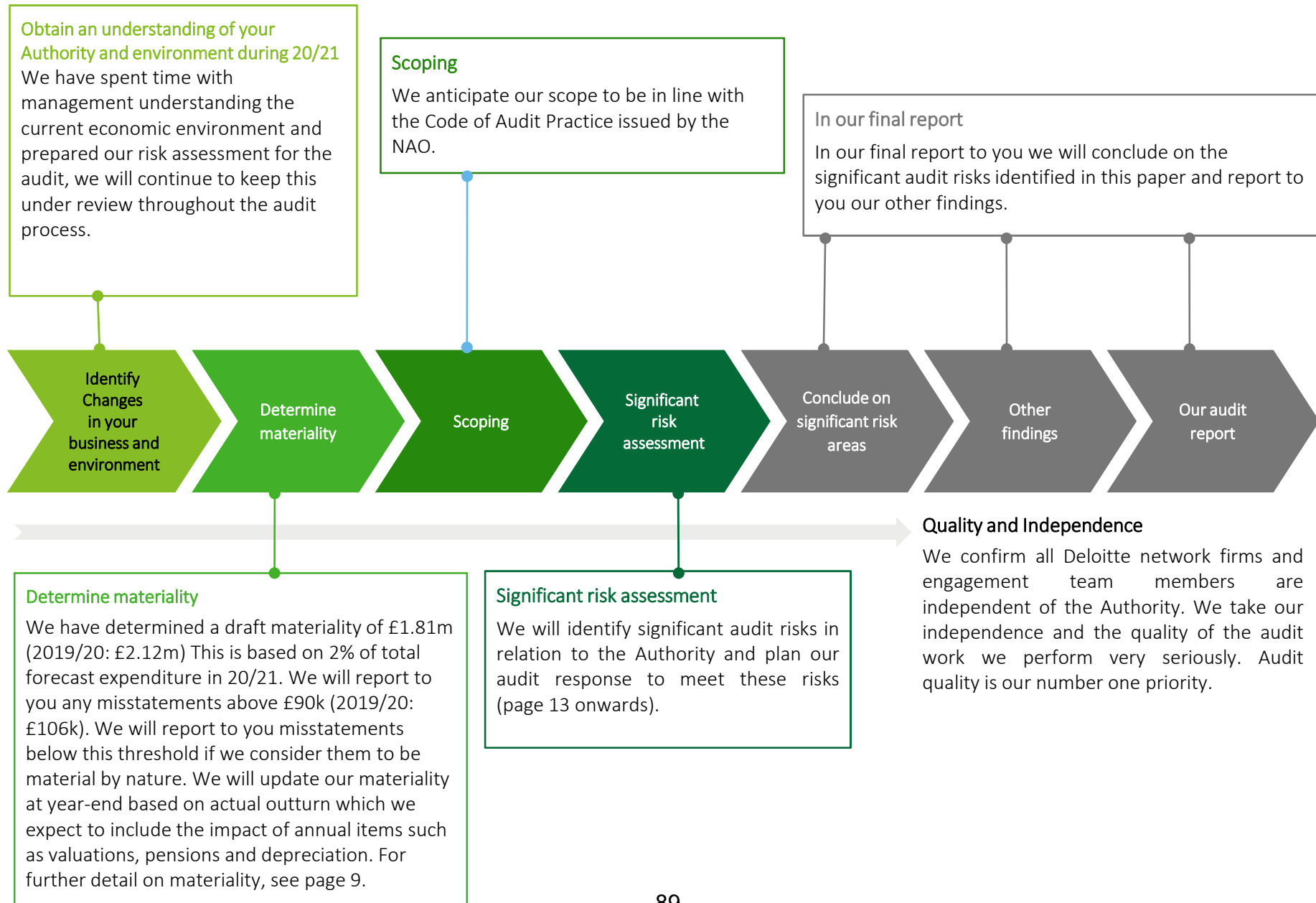
Why do we interact with the Audit Committee?

As a result of regulatory change in recent years, the role of the Committee has significantly expanded. We set out here a summary of the core areas of the Committee’s responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.



Our audit explained

We tailor our audit to your Authority and your strategy



Scope of work and approach

We have four key areas of responsibility under the Audit Code of Practice

Financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK) (“ISA (UK)”) as adopted by the UK Auditing Practices Board (“APB”) and Code of Audit Practice issued by the NAO. The Authority will prepare its accounts under the Code of Practice on Local Authority Accounting (“the Code”) issued by CIPFA and LASAAC.

We report on whether the financial statements:

- Give a true and fair view of the financial position and income and expenditure; and
- Are prepared in line with the Code of Practice on Local Authority Accounting (“the Code”).

Annual Governance Statement

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work.

As part of our work we will review the annual report and compare with other available information to ensure there are no material inconsistencies. We will also review any reports from other relevant regulatory bodies and any related action plans developed by the Authority.

Value for Money conclusion

We are required to satisfy ourselves that the Authority has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources.

Further detail is included on page 17 in respect of the new arrangements for the current period.

Whole of Government Accounts

We are required to issue a separate assurance report on the Authority’s separate return required to facilitate the preparation of the Whole of Government Accounts.

Our work on the return is carried out in accordance with instructions issued by the NAO and typically focuses on testing the consistency of this return with the Authority’s financial statements, together with the validity, accuracy and completeness of additional information about the Authority’s transactions and balances with other bodies consolidated within the Whole of Government accounts. We are also typically asked to report to the NAO on key findings from our audit of the accounts. The NAO has not yet issued its instructions for the current year. However, we anticipate that in keeping with previous years the Authority will be below the threshold for detailed audit work.

Our responsibilities as auditor, and the responsibilities of the Authority are set out in “PSAA Statement of Responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies” published by PSAA.

Scope of work and approach (continued)

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Authority's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Authority complete the Code checklist during drafting of their financial statements.

Value for Money and other reporting

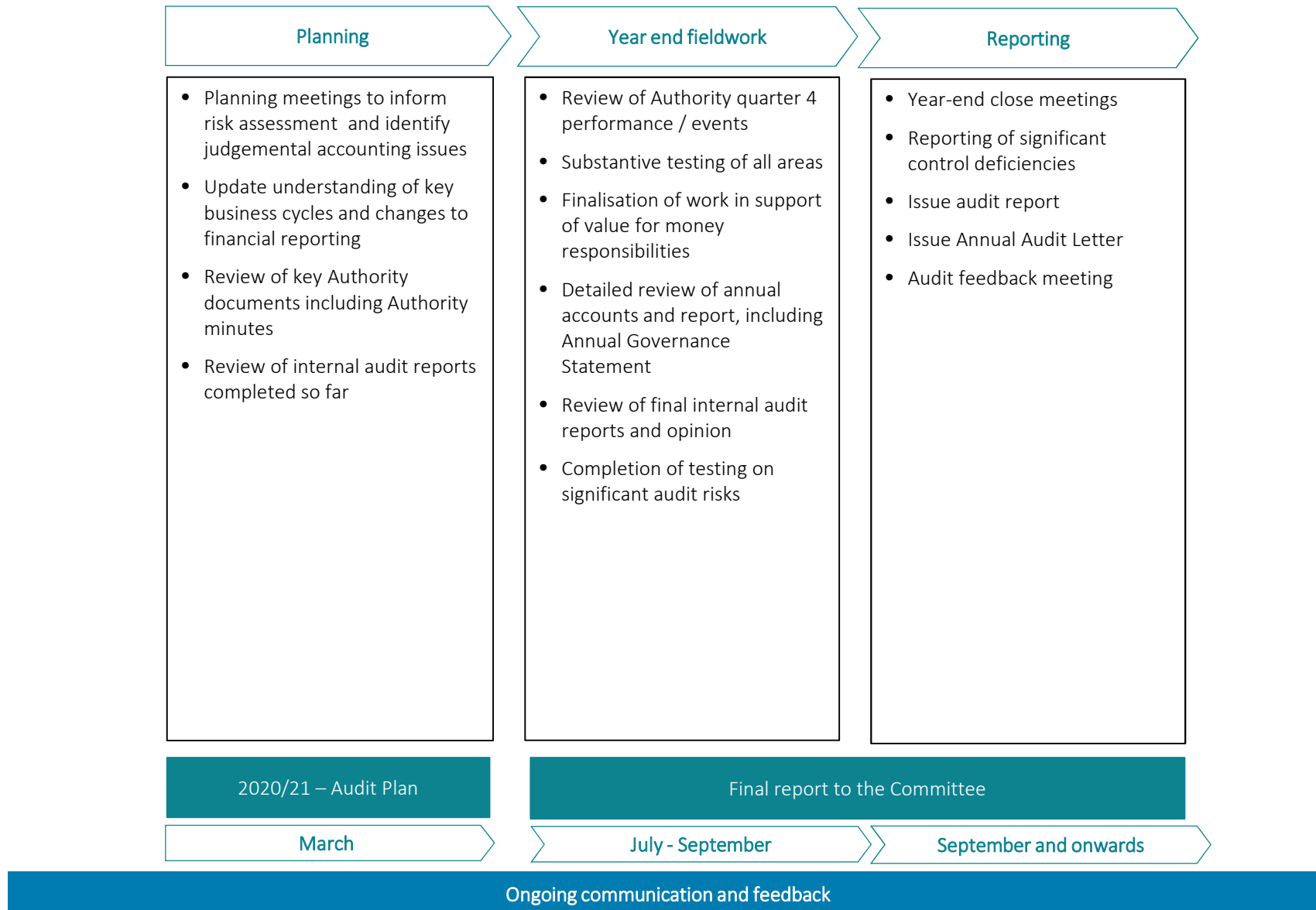
The Code of Audit Practice requires us to report by exception in our audit report any matters that we identify that indicate the Authority has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. In addition to this, under the revised version of AGN 03 which is effective for the first time in 2020/21, we are required to issue a longer form narrative report setting out our observations on the Authority's arrangements to secure value for money.

Public Auditor

Under the terms of the local audit and accountability act and in accordance with AGN04 we have certain other duties including, where necessary reporting in the public interest. We are not currently aware of circumstances that would lead us to exercise the powers afforded to the appointed auditor under the act.

Continuous communication and reporting

Planned timing of the audit



Materiality

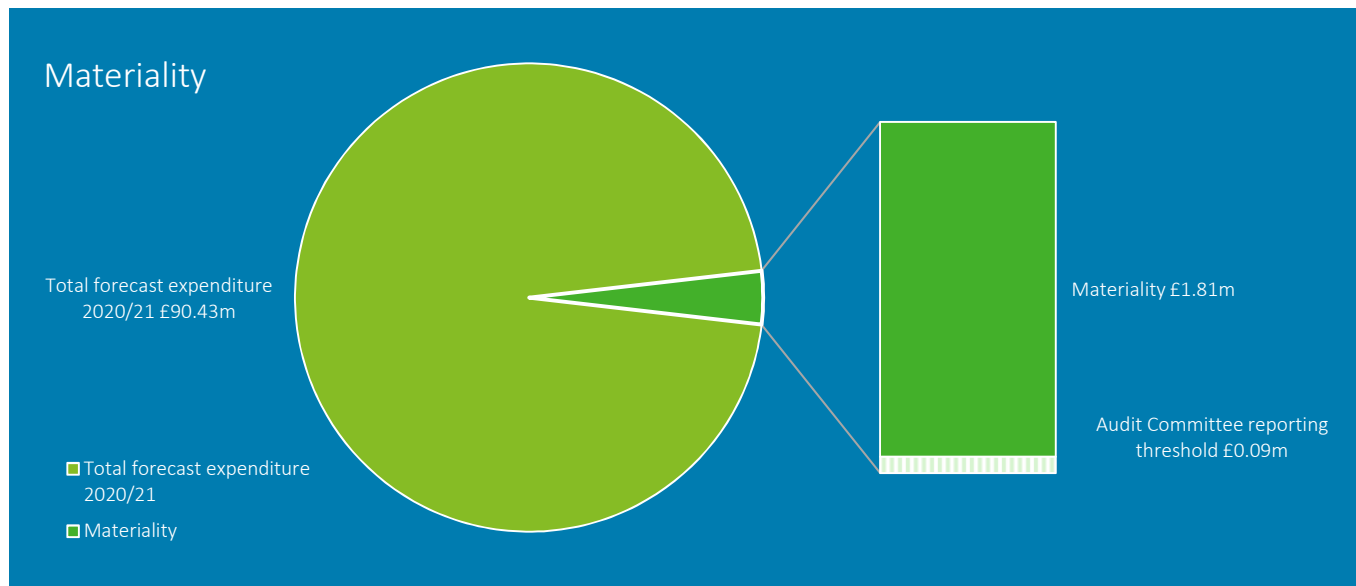
Our approach to materiality

Basis of our materiality benchmark

- The audit director has determined a preliminary materiality as £1.81m (2019/20: £2.12m), based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements. We will update this at year-end based on actual outturn.
- We have used 2% of total forecasted expenditure as per the 2020/21 operational plan for determining materiality for the financial statements as a whole, which is in line with the approach taken in the prior year.
- We will update our materiality at year end based on actual outturn which we expect to include the impact of annual items such as valuations, pensions and depreciation.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £90k (2018/19: £106k).
- We will report to you misstatements below this threshold if we consider them to be material by nature.



Although materiality is the judgement of the audit director, the Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

COVID-19 pandemic and its impact on our audit

Requirements	<p>CIPFA has issued guidance highlighting the importance of considering the impact of COVID-19 in preparation of the financial statements, including communicating risks and governance impacts in narrative reporting. This is consistent with the Financial Reporting Council’s guidance to organisations on the importance of communicating the impact of COVID-19 and related uncertainties, including their impact on resilience and going concern assessments.</p> <p>Entity-specific explanations of the current and expected effects of COVID-19 and the Authority’s plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation.</p> <p>As well as the effects upon reserves, financial performance and financial position, examples of areas highlighted by CIPFA include the impact on service provision, changes to the workforce and how they are deployed, impacts upon the supply chain, cash flow management, and plans for recovery. Risks highlighted include those relating to subsidiaries and investments, capital programmes, and resilience of the community including partner organisations and charities.</p>
Actions	<p>We therefore expect a thorough assessment of the current and potential future effects of the COVID-19 pandemic including:</p> <ul style="list-style-type: none"> • A detailed analysis across the Authority’s operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position and reserves; • The economic scenario or scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios); and • The effect of events after the reporting date, including the nature of non-adjusting events and an estimate of their financial effect, where possible.

Impact on the Authority	Impact on annual report and financial statements	Impact on our audit
<p>We will consider the key impacts on the business such as:</p> <ul style="list-style-type: none"> • Interruptions to service provision • Supply chain disruptions • Unavailability of personnel • Reductions in income • The closure of facilities and premises 	<p>We have considered the impact of the outbreak on the annual report and financial statements, discussed further on the next slide including:</p> <ul style="list-style-type: none"> • Narrative reporting • Property valuation • Impairment of non-current assets • Impact on pension fund investment measurement and impairment • Allowance for expected credit losses • Going concern assessment • Events after the reporting period and relevant disclosures 	<p>We have considered the impact on the audit including:</p> <ul style="list-style-type: none"> • Resource planning • Timetable of the audit • Impact on our risk assessment • Logistics including meetings with entity personnel

COVID-19 pandemic and its impact on our audit (continued)

Narrative and other reporting issues	<p>The following areas will need to be considered by local authorities as having being impacted on by the COVID-19 pandemic.</p> <ul style="list-style-type: none">• Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability.• Reporting judgements and estimation uncertainty, the Authority will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities
Property valuation and impairment of non current assets	<p>The Royal Institute of Chartered Surveyors issued a practice alert in March 2020, as a result of which valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation, resulting in disclosure in financial statements and “emphasis of matter” paragraphs in audit reports. By September 2020, RICS considered that there was no longer material uncertainty over valuations from that date, and therefore valuations at 31 March 2021 are not expected to be affected by material valuation uncertainties.</p> <p>The Authority needs to consider its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations the Authority should consider with their valuers the impact that COVID-19 has had on current value. The Authority will also need to consider whether there are any indications of impairment of assets requiring adjustment at 31 March 2021.</p>
Impact on pension fund investment measurement	<p>As a result of the COVID-19 pandemic pension fund investments have been subject to volatility. It is important to engage early with custodians and fund managers to not only gather information for year-end measurements but to also understand any estimation techniques and any changes to those techniques that may be needed to measure the financial instruments. Where such volatility exists it may mean that the inputs used in the fair value measurement may change and may require a change of measurement technique, and consideration of the level of uncertainty in valuations where there is significantly more estimation.</p>
Expected credit losses	<p>Since 31 March 2020, there has been a significant downturn in economic activity, with many businesses and individuals significantly impacted. The Authority will need to consider the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.</p>
Events after the reporting period	<p>The economic environment and impact of the pandemic continues to be highly uncertain. The Authority will need to consider the events after the Reporting Period and whether these events will be adjusting or non-adjusting and make decisions on a transaction by transaction basis. The nature of the COVID-19 pandemic will mean that the Authority will need to continue to review and update these assessments up to the date the accounts are authorised for issue.</p>

Significant risks

Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the annual report and financial statements;
- critical judgements and estimates
- the disclosures made by the Audit Committee in their previous Audit Committee report;
- our assessment of materiality; and
- the changes that have occurred in the business and the environment it operates in since the last annual report and financial statements.

Deloitte view

Management must carefully consider the principal risks, uncertainties and accounting estimates of the Authority.

Critical judgements and estimates

- Provisions
- Property valuations
- Pension liabilities
- Fair value measurement of bad debt provision

Changes in your business and environment

- Impact of COVID-19

NAO – Auditor Guidance Note 06

The National Audit Office identified going concern, IFRS 16 Leases, transitional protection for certain pension scheme members, Guaranteed Minimum Pensions Equalisation and Pension guarantees to other entities as key issues in their Local Government Audit Planning guidance issued in January 2020.

We reviewed the approach being taken by the Authority in response to these in the prior year audit and will refresh our understanding for the current year.

We do not believe any of these matters represent a significant audit risk but we will carefully review the approach being taken by the Authority to address these issues.

Significant risks (continued)

Significant Audit Risk dashboard

Risk	Material	Fraud risk	Planned approach to controls	Level of management judgement	Expected to be included in our report to the Audit Committee	Slide no.
Property Valuation						14
Completeness of expenditure						15
Management Override of Controls						16

Note that this is a preliminary assessment of the significant risks of material misstatement and an update will be provided to the Committee should changes arise.

Low Level of Judgement 

Medium Level of Judgement 

High Level of Judgement 

Controls approach adopted

Assess design & implementation 

Significant risks (continued)

Risk 1 – Property Valuation

Risk identified	<p>The Authority held £79.5m of property assets (land and buildings) at 31 March 2019 which decreased to £76.4m as at 31 March 2020.</p> <p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. There is therefore a risk that the carrying value of assets not included in the authority's revaluation process in the current year materially differ from the year end fair value. A full revaluation was undertaken in 2018/19 and we understand from our discussions with management, that in line with the Authority's rolling programme, in the current year, 20% of assets will be fully revalued with the remaining 80% subject to a desktop exercise.</p>
Our response	<ul style="list-style-type: none">• We will examine the terms of engagement of the valuer, the instructions issued and the management controls within the Authority concerning the receipt, review and acceptance of the report;• We will test the design and implementation of key controls in place around the valuations process;• We will use our valuation specialists, Deloitte Real Estate, to support our review and challenge of the appropriateness of the assumptions used in the year-end valuation of the Authority's Land and Buildings; and• We will test a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts.

Significant risks (continued)

Risk 2 – Completeness of expenditure

Risk identified Under UK auditing standards, there is a presumed risk of incorrect revenue recognition due to fraud. In line with last year, we have rebutted this risk, and instead believe that the fraud risk lies with the completeness of expenditure.

In prior periods, we have identified improvements to be made in the control environment in respect of recording expenditure around year-end. We understand that the control environment has changed in the current period, however the year-end process has not yet operated and as such we have continued to identify a fraud risk in respect of the under recording of expenditure.

There is a risk that the Authority may materially misstate expenditure through manipulation of the accruals balance, including year-end transactions, in an attempt to move expenditure between years to report a more favourable year end position. The Authority does not have material provisions balances and based upon discussions to date we do not consider the completeness of provisions to fall within the scope of this risk.

Our response Our work in this area will include the following:

- We will obtain an understanding of the design and implementation of the key controls in place in relation to recording of accruals including year-end creditor transactions;
 - We will perform focused testing in relation to the completeness of expenditure by examining the application of cut off primarily through the focussed testing of accruals balance; and
 - We will review and challenge the assumptions made in relation to year-end estimates and judgements to assess completeness of recorded expenditure.
-

Significant risks (continued)

Risk 3 – Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is a presumed significant risk for all audit engagements. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Authority's controls for specific transactions.

The key judgments in the financial statements are those which we have selected to be the significant audit risks: completeness of expenditure and valuation of the Authority's estate. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements. Whilst not noted as a significant risk, the valuation of pensions is also a key judgement.

Our response

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

- We will test the design and implementation of key controls in place around journal entries and management judgements;
 - We will risk assess journals and select items for detailed testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest;
 - We will test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting;
 - We will review accounting judgements for biases that could result in material misstatements due to fraud; and
 - We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the Authority, or that otherwise appear to be unusual, given our understanding of the entity and its environment.
-

Value for Money

Area of focus

We are required to consider the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03, we are required to:

- Perform work to understand the Authority's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria;
 - 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.
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report (which replaces the Annual Audit Letter), setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to VfM arrangements, which might include emerging risks or issues.
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

The National Audit Office and the audit firms are continuing to discuss the practical implementation of these new requirements and expectations as to the extent of procedures underpinning these requirements, including the timetable required for VfM work and reporting for 2020/21. Expectations in this area are likely to continue to evolve as practical issues emerge in implementation.

Specific areas that we expect to focus on in understanding the Authority's arrangements include the Authority's response to the financial pressures from COVID-19 in 2020/21, and the Authority's longer term planning for financial sustainability.

Revisions to auditing standards coming into effect

ISA (UK) 570 – Going concern

The Financial Reporting Council (FRC) issued a revised going concern standard in September 2019, that takes effect for periods commencing on or after 15 December 2019. For Local Government bodies, this will be March 2021 year ends and later.

The revision was made in response to recent enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

We have summarised below the key areas of change in the standard – however, the Public Audit Forum is also consulting on changes to Practice Note 10, with the intention of reflecting public sector considerations in the approach to going concern, and so the ultimate impact of ISA (UK) 570 changes will be affected by this.

The key changes affect:

- Risk assessment procedures and related activities, increasing consideration of the entity's business model, operations and financing
- The auditor's evaluation of management's assessment of the going concern assumption (which therefore requires a clearly documented assessment)
- Enhanced professional scepticism requirements, including around the evaluation of the sufficiency and appropriateness of audit evidence
- Considering the appropriateness of disclosures; and
- Reporting in enhanced audit reports.

“The revised standard means UK auditors will follow significantly stronger requirements than those required by current international standards.”

FRC's press release, 30 September 2019

Revisions to auditing standards coming into effect (continued)

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Since 2015, the International Auditing and Assurance Standards Board (IAASB) has sought to identify audit issues relating to accounting estimates for financial institutions and other entities. Initially, this focused on the impact of IFRS 9 *Financial Instruments*, because it would fundamentally change the way that banks and other entities account for loan assets and other credit exposures.

However, the IAASB concluded that most, if not all, issues identified for expected credit losses would be equally relevant when auditing other complex accounting estimates. Accordingly, a holistic revision of ISA 540 was undertaken and the new standard takes effect for periods commencing on or after 1 January 2020. For Local Government bodies, this will be March 2021 year ends and later.

We summarise on the next few slides how this will impact our audit.

“There is a clear need to update ISA 540 to support better quality audits of increasingly complex accounting estimates”

FRC letter to the IAASB, July 2017

Area of change	Impact on our audit	Impact on the directors
Area of oversight and governance relating to estimates	In connection with our planning work to understand the entity and its environment, including internal control, we will specifically inquire regarding management’s processes, and the oversight and governance of those processes relating to accounting estimates.	You will need to consider the adequacy of your processes and controls over estimates, and documentation thereof.

Revisions to auditing standards coming into effect (continued)

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Area of change	Impact on our audit	Impact on the directors
Identification of inherent risk factors; separate assessment of inherent risk and control risk	Recognising a spectrum of inherent risk, we will assess risks of material misstatement in estimates with reference not only to estimation uncertainty, but also complexity, subjectivity or other inherent risk factors, and the interrelationship among them.	You will need to provide clear documented rationale for (a) the selection and application of the method, assumptions and data in making the accounting estimate, including any changes in the current year, and controls relating to those aspects; and/or (b) the selection of a point estimate and related disclosures for inclusion in the financial statements.
Objectives-based work effort requirements	We will specifically assess control risk relating to estimates, which may require us to evaluate the design and determine implementation of an increased number of internal controls. Our subsequent audit procedures will be responsive to this assessment, and designed to obtain evidence around the methods, significant assumptions, data and (where applicable) the selection of a point estimate and related disclosures about estimation uncertainty.	You should expect more challenge of the evidence provided in support of accounting estimates, use of external data sources and your consideration of contradictory evidence.
Enhanced “stand back” requirement, to evaluate the audit evidence obtained	We will specifically design our procedures, to enhance our application of professional scepticism, so that they are not biased towards finding corroborative evidence; our overall evaluation of the evidence obtained will weigh both corroborative and contradictory evidence.	

Revisions to auditing standards coming into effect (continued)

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Area of change	Impact on our audit	Impact on the directors
Enhanced requirements about whether disclosures are “reasonable”	The extant ISA 540 required us to evaluate whether disclosures were “adequate”. The change to “reasonable” will involve greater consideration of the overall meaning conveyed through disclosures. For example, where estimation uncertainty associated with an estimate is multiple times materiality, we will consider whether the disclosures appropriately convey the high degree of estimation uncertainty and the range of possible outcomes.	You should expect more challenge on disclosures relating to estimates, particularly for where you have selected a point estimate from a range and those with high estimation uncertainty.
New requirements when communicating with those charged with governance	In accordance with ISA (UK) 260 and ISA (UK) 265, our communications from the audit have included significant qualitative aspects of your accounting practices and significant deficiencies in internal control. With the revised ISA (UK) 540, these communications will specifically include matters regarding accounting estimates and take into account whether the reasons for our risk assessment relate to estimation uncertainty, or the effects of complexity, subjectivity or other inherent risk factors.	You should expect increased reporting in relation to accounting estimates.

Areas where we consider the impact to be greatest:

Key areas impacted will include property valuations and accruals.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory and governance updates, relevant to you.

Use of this report

This report has been prepared for the Authority, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Authority.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

Deloitte LLP
Leeds, March 2021

Appendices

Uncorrected misstatements identified in 2020

Uncorrected misstatements

The following uncorrected misstatements were identified during the course of our prior year audit:

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) reserves £m
Misstatements identified in prior year affecting current year				
Creditors	[1]	(0.273)		0.273
Misstatements identified in current year				
Accruals	[2]	(0.193)	0.193	
McCloud	[3]	(0.404)		0.404
West Yorkshire Pension Fund	[4]	0.336	(0.336)	
Componentisation	[5]	0.387	(0.387)	
Aggregation of misstatements individually < £106k		0.077	(0.077)	
Total		(0.070)	(0.607)	0.677

[1] Relates to an extrapolated under accrual for expenditure noted in our prior year audit which carries forward to the current year.

[2] Relates to over accrual for expenditure noted from two errors of £21k in our accruals testing.

[3] McCloud LGPS error.

[4] Error identified by pension fund auditor in relation to private equity valuation.

[5] Relates to additional forecasted depreciation charge resulting from application of componentisation.

Fraud responsibilities and representations

Responsibilities explained



Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



Our responsibilities:

- We are required to obtain representations from management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of fraud in completeness of expenditure, and management override of controls as a key audit risk for your organisation.

Fraud Characteristics:



- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Authority:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- [We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.]
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Fraud responsibilities and representations (continued)

Inquiries

We will make the following inquiries regarding fraud:



Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the Authority.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the Authority.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the Authority.
- We plan to involve management from outside the finance function in our inquiries.



Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the Authority, and to obtain its views about the risks of fraud.



Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the Authority and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the Authority.
- The views of those charged with governance on the most significant fraud risk factors affecting the Authority.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Authority and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2021 in our final report to the Audit Committee.
Fees	There are no non-audit fees proposed for either the current or prior years. Details of audit fees are included on the next slide.
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Authority's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Authority, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Independence and fees (continued)

The professional fees expected to be charged by Deloitte LLP in the period from 1 April 2020 to 31 March 2021 are as follows:

	Current year £	Prior year £
Financial statement audit, including Whole of Government Accounts and procedures in respect of Value for Money assessment [1]	TBC	27,782
Additional fees*		5,932
Total audit	27,782	33,714
Total fees	27,782	33,714

[1] In line with recent PSAA correspondence that scale fees should be negotiated by individual s151 officers based on the individual circumstances of each body, we are discussing with the Authority the current level of fee.

*We have agreed the additional audit fees to reflect the additional audit work that was required in respect of the 2019/20 audit with management and are awaiting agreement with PSAA.

Our approach to quality

AQR team report and findings

Audit quality remains our number one priority and we have a relentless commitment to it. We continue to invest in and enhance our Audit Quality Monitoring and Measuring programme.

In July 2020 the Financial Reporting Council (“FRC”) issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review (“AQR”) team for the 2019/20 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

We are pleased with our results for the inspections of FTSE 350 entities achieving 90% assessed as good or needing limited improvement, which included some of our highest risk audits. Our objective is for 100% of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions.

We are also pleased to see the impact of our previous actions on prior year adjustments is reflected in the results of current year inspections with no findings in this areas. In addition the FRC identified good practice examples including in: risk assessment, group oversight, our comprehensive IFRS 9 expected credit loss audit programme and our audit committee reporting.

Embedding a culture of challenge in our audit practice underpins the key pillars of our audit strategy. We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website.

<https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

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