Statement of Accounts 2020 - 21

Audit Committee

Date: 30 September 2021

Agenda Item: 6

Submitted By: Chief Finance and Procurement Officer

Purpose To present the Statement of Accounts 2020 – 21 for approval following completion of the audit.

Recommendations That Members approve the Statement of Accounts 2020 - 21

Summary 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.

Local Government (Access to information) Act 1972

Exemption Category: None

Contact Officer:

Alison Wood

Alison.wood@westyorksfire.gov.uk

01274 682311 ext 660204

Background papers open to inspection: None

Annexes: Explanation of key financial statements

Statement of accounts 2020 – 21

1 Introduction

1.1 The purpose of this report is to present to Members the Statement of Accounts 2020/21.

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.

1.4 The National Audit Office issued Auditor Guidance Note 3 (AGN 03) in April 2021 that introduced new 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.

1.5 This Value for Money report has to be presented by Deloitte, to the Authority three months following the approval of the Statement of Accounts - thus the deadline for the submission of this new report is 31 December. This will be presented to Full Authority on 17 December for approval.

2 Information

2.1 The accounts are made up of four key statements, supported by a number of supporting notes which take up the majority of the document.

2.2 The key statements are:

- Comprehensive Income and Expenditure Statement
- Movement in Reserves Statement
- Balance Sheet
- Cash Flow Statement

2.3 The preparation, format and approval procedures for the Statement of Accounts have been carried out in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom, (the Code of Practice) published by Chartered Institute of Public Finance and Accountancy (CIPFA).

A brief explanation of the key financial statements is provided below and a diagram to show the links to each statement is an appendix to this report

3. **Comprehensive Income and Expenditure Statement**. (*Page 37 of SOA)*

Purpose of this statement

This statement consolidates all the gains and losses experienced by the Authority during the course of the financial year which reconcile to the overall change in the net worth of the Authority, as shown in the balance sheet.

The Comprehensive Income and Expenditure Statement is reported in the accounts in the same format as budget monitoring information is provided to management. This supports accountability and transparency as it reflects the way in which services operate and performance is managed.

The statement is split into two sections:

- The first section (deficit on the provision of services) reflects the full economic cost of providing the services of the Authority, as a result of the provision of the service, by comparing the expenditure incurred with the income generated.

- The second section (other comprehensive income and expenditure) looks at changes which do not relate to the provision of the service, including changes in the value of its land and buildings and any actuarial gains and losses on pension assets and liabilities.

The main purpose of the statement is to show the accounting cost in the year of providing the service, in accordance with generally accepted accounting practice, rather than the cost to the taxpayer. The actual impact on the taxpayer is shown in the Movement in Reserves Statement.

Financial Position

The statement shows that the overall expenditure for the year exceeded income by £148.930m (£94.050m in 2019/20). The change is due to the impact of the actuarial loss on the fire-fighters' pension scheme of £137.800m.

The total balance of the Comprehensive Income and Expenditure Statement of -£148.930m represents the change in total reserves on the balance sheet between 31 March 2020

(-£1,333.729m) and 31 March 2021 (-£1,482.659m).

4. **Balance Sheet** (*Page 40 of SOA)*

Although this statement does not appear first in the Statement of Accounts document it is the one that sets out the Authority's financial position as at the 31 March 2021 and the other three statements provide the information to be included in the Balance Sheet.

Purpose of the Balance Sheet

The Balance Sheet is fundamentally different from the other statements because it provides a snapshot of the financial position of the Authority on one particular day (31 March) rather than providing a summary of the transactions through the year. It also provides details of the position as at 31 March the previous year for comparison. It shows the net value of the assets and liabilities that have been recognised by the Authority as at 31 March and then shows how these are matched by the reserves held by the Authority.

These reserves are split into two:

- ‘useable reserves’ (which are those the Authority can use to fund expenditure or reduce council tax)

- ‘unusable reserves’ which cannot be used to fund expenditure

An explanation of the movement of these reserves is included in the Statement of Movement of Reserves which is explained in paragraph 5.

Financial Position

The balance sheet shows that the Authority’s liabilities exceeded its assets by £1,482.659m as at 31 March 2021 and that the total amount of reserves equals that amount.

Further analysis of the reserves shows that the Authority has useable reserves of £37.398m and negative unusable reserves of (£1,520.057m).

The large deficit in the unusable reserves relates to the total future value of net liabilities in the Firefighters’ Pension scheme which totals £1,563.290m. This represents the estimated lifetime cost of paying pensions to all existing employees and pensioners. These figures, which overshadow the rest of the balance sheet, overshadow the overall financial position of the Authority for two reasons:

- Firstly, these are long term liabilities which will be payable over the life of all existing staff and pensioners and,

- Secondly, under the current funding arrangements any year-on-year deficit on pensions is met by a grant from central government which means the Authority will not have to meet this liability.

Consequently, if you exclude these liabilities from the balance sheet the Authority has a net worth of £80.631m including useable reserves of £37.398m.

5. Movement in Reserves Statement. (*Page 39 of SOA)*

Purpose of this statement

As explained in the previous paragraph, there are a number of reserves in the Authority’s balance sheet which are set aside to meet future year’s expenditure. This statement shows the movement on these reserves during the financial year 2020/21. As previously explained, these are broken down between useable reserves and unusable reserves. The main difference between the two categories is that useable reserves are created by setting aside funds whilst unusable reserves are created by an accounting adjustment.

The general fund balance is an example of a useable reserve, with the ‘revaluation reserve’ being a good example of an unusable reserve.

Financial Position

Usable reserves have increased by £2.730m with a detailed analysis of the changes provided in note 28 (page 83) to the Statement of Accounts. Usable reserves have been used to fund capital expenditure, the lean working and procurement reviews and the purchase of equipment for the Command Leadership and Management project in 2020/21.

Movements into and out of usable reserves are set out in note 29 (page 84) of the Statement of Accounts.

The deficit on unusable reserves has increased by £151.660m which is primarily as a result of an increase in the actuarial valuation of the future pension liabilities.

6. Cash Flow Statement (*Page 41 of SOA)*

Purpose of the statement

This statement tracks the changes in cash and cash equivalents (e.g. debtors, creditors) during the financial year. It shows how the Authority generates and uses the cash by classifying it as either operating (provision of service), investing and financing activities.

The operating activities demonstrate how the income raised through government grant and council tax is used to fund service provision,

The investment activities include the extent to which the Authority has invested in new property and equipment as well as any income achieved from investing spare cash resources,

The financing activities show the Authority's financing decisions including borrowing activity and the repayment of existing loans.

The cash flow statement excludes all non-cash transactions such as depreciation.

Financial position

The statement shows that the Authority has a net increase in the amount of cash and cash equivalent of £4.828m at the end of the financial year and a closing balance of cash and cash equivalents of £15.940m.

The key items from the cash flow statement are

- net cash flows from operating activities of £5.440m
- net cash flows from investing activities £5.651m
- net cash flows from financing activities of £5.039m

7. Financial Implications

7.1 These are included within the main body of the report and the Statement of Accounts.

8. Legal Implications

8.1 The Monitoring Officer has considered this report and has no observations to make at the time of submission of this report but may provide legal advice at the committee meeting and/or respond to any requests by Members for legal advice made at the meeting.

9. Human Resource and Diversity Implications

9.1 There are no human resource and diversity implications associated with this report.

10. Equality Impact Assessment

Are the recommendations within this report subject to Equality Impact Assessment as outlined in the EIA guidance? (EIA guidance and form 2020 form.docx (westyorksfire.gov.uk)	**No**

Although this report is not subject to an Equality Impact Assessment, the Statement of Accounts format are compliant with EIA guidance so they are easy for the user to access and read on the Authority's website.

11. Health, Safety and Wellbeing Implications

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

12. Environmental Implications

12.1 There are no environmental implications associated with this report.

13. Your Fire and Rescue Service Priorities

13.1 The Statement of Accounts presents the financial position of the authority and as such underpins all the fire and rescue service priorities.

14. Conclusion

14.1 The Statement of Accounts has been completed and audited within the statutory deadlines. The external audit report, the ISA260 summarises the audit of the accounts and it a separate report on this agenda.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2019/20				2020/21		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
46,133	-2,974	43,159	Service Delivery	48,231	-4,973	43,258
11,537	-531	11,006	Service Support	11,870	-803	11,067
6,440	-535	5,905	Employment Services	4,627	-540	4,087
1,174	-29	1,145	Chief Fire Officer	618	-14	604
1,496	-11	1,485	Finance and Procurement	2,333	-6	2,327
401	-4	397	Corporate Communications	432	-2	430
67,181	**-4,084**	**63,097**	**Cost of Services**	**68,111**	**-6,338**	**61,773**
162	-70	92	Other Operating Expenditure (Note 11)	256	-32	224
38,674	-307	38,367	Financing and Investment Income & Expenditure (Note 12)	33,569	-196	33,373
-	-86,093	-86,093	Taxation and Non specific Grant Income (Note 13)	-	-84,296	-84,296
106,017	**-90,554**	**15,463**	**Deficit on Provision of Services**	**101,936**	**-90,862**	**11,074**
		1,308	Impairment losses on non-current assets charged to the revaluation reserve			56
		-110,821	Remeasurement of the net defined benefit liability			137,800
		-109,513	**Other Comprehensive Income and Expenditure**			**137,856**
		-94,050	**Total Comprehensive Income and Expenditure**			**148,930**

CASH FLOW STATEMENT

2019/20		Notes	2020/21
£'000			£'000
-15,463	Net (deficit) on the provision of services		-11,074
28,959	ment to deficit on the provision of services for non-cash move	23	16,546
-70	Adjustment for items included in the net deficit on the provision of services that are investing and financing activities	23	-32
13,426	**Net Cash flows from operating activities**		**5,440**
-8,804	Net Cash flows from Investing Activities	24	-5,651
-6	Net Cash flows from Financing Activities	25	5,039
4,616	**Net increase or (decrease) in cash and cash equivalents**		**4,828**
6,496	sh and cash equivalents at the beginning of the reporting peri	22	11,112
11,112	**Cash and cash equivalents at the end of the reporting period**		**15,940**

BALANCE SHEET

31 March 2020		Notes	31 March 2021
£'000			£'000
94,386	Property, Plant and Equipment	14	92,508
409	Intangible Assets	16	290
94,795	**Long Term Assets**		**92,798**
20,000	Short Term Investments		20,594
685	Inventories	20	812
8,883	Short Term Debtors	21	12,570
11,112	Cash and Cash Equivalents	22	15,940
40,680	**Current Assets**		**49,916**
-669	Short Term Borrowing		-621
-10,812	Short Term Creditors	26	-15,262
-1,184	Provisions (<1yr)	27	-1,162
-12,665	**Current Liabilities**		**-17,045**
-45,173	Long Term Borrowing		-45,016
-22	Capital Grants received in Advance		-22
-1,411,344	Net liability related to defined Benefit Pension Schemes	39	-1,563,290
-1,456,539	**Long Term Liabilities**		**-1,608,328**
-1,333,729	**Net Liabilities**		**-1,482,659**
34,668	Usable Reserves	28	37,398
-1,368,397	Unusable Reserves	30	-1,520,057
-1,333,729	**Total Reserves**		**-1,482,659**

MOVEMENT IN RESERVES STATEMENT

Movement in Reserves during 2020/21	Note	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	TOTAL AUTHORITY RESERVES
		£'000	£'000	£'000	£'000	£'000	£'000
Balance 01 April 2020		34,668	-	-	34,668	-1,368,397	-1,333,729
Total Comprehensive Income & Expenditure		-11,074	-	-	-11,074	-137,856	-148,930
Adjustments between accounting basis & funding basis under regulations	10	13,719	85	-	13,804	-13,804	-
Increase/Decrease in 2020/21		2,645	85	-	2,730	-151,660	-148,930
Balance at 31 March 2021 carried forward		37,313	85	-	37,398	-1,520,057	-1,482,659

Change in net worth
-1,333,729
-1,482,659
148,930

West Yorkshire Fire and Rescue Authority

Update report to the Audit Committee on the 2020/21 audit

Issued on 16 September 2021 for the meeting on 30 September 2021

Contents

01 Final report

02 Appendices

Introduction

The key messages in this report

I have pleasure in presenting our update report to the Audit Committee of West Yorkshire Fire and Rescue Authority (the Authority) for the 2020/21 audit. The scope of our audit was set out within our planning report presented to the Committee in April 2021.

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.

Status of our Statement of Accounts audit	The completion of the audit is behind plan primarily subject to the late alteration of the audit schedule by management alongside delays in the delivery of the accounts and supporting working papers for the audit. <u>Matters relating to the audit of the pension schemes</u> • receipt of IAS19 information from West Yorkshire Pension Fund auditors; • finalisation of the report of our pension experts in respect of the Firefighter's Pension Fund; <u>Other Matters</u> • resolution of queries from planning work; • resolution of queries in respect of creditors; • resolution of queries in respect of legal expenditure; • resolution of queries in respect of remuneration testing; • review of fair value disclosure in respect of borrowings; • query in respect of short term investments classification; • resolution of query in respect of the Collection Fund; • resolution of query in respect of Emergency Services Mobile Communications Programme accounting; • resolution of queries in respect of componentisation of Property Plant and Equipment; • resolution of queries in respect of significant audit risks; • finalisation of notes testing; • concluding audit procedures; • review and receipt of updated financial statements; • completion of internal quality assurance procedures; • receipt of signed management representation letter; and • our review of events since 31 March 2021 through to signing. We will provide an oral update at the meeting.

Introduction

The key messages in this report (continued)

Status of our Value for Money audit	Our Value for Money work is on-going, and will be reported in our Auditor's Annual Report, which will be issued within the three month timeframe specified under the National Audit Office Auditor Guidance Note 3. We have not identified to date any risks of significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources. We have no matters to report by exception at this stage in our financial statement audit opinion. Our opinion will state that our Value for Money work is on-going.
Interactions with internal audit	We have held discussions with internal audit throughout the year and have also reviewed all reports which have been provided to the Audit Committee. We have not placed any reliance on the work of internal audit.

Update from our testing	• The key judgements in the audit process related to:
	  • valuation of properties; and
	  • completeness of expenditure.
	• From our work to date we have identified audit adjustments as set out on page 21.

Narrative Report & Annual Governance Statement	• We have reviewed the Authority's Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work. • The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE. • We have suggested a number of minor changes to management for consideration.
Duties as public auditor	• We have not received any queries or objections from local electors this year. • We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Whole of Government Accounts	• The Authority is not a sampled component for WGA reporting. • We are required to report our overall audit opinion and key issues from our audit to the National Audit Office following completion of the audit.

Paul Hewitson
Audit Lead

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

In our planning report we identified the key changes in your operations and articulated how these impacted our audit approach.

Scoping

Our planning report set out the scoping of our audit in line with the Code of Audit Practice. We have completed our audit in line with our audit plan.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit.

Determine materiality

When planning our audit we set our materiality at £1.81m based on forecast gross expenditure, excluding the impact of pensions and revaluation adjustments. We have updated this to reflect final figures and completed our audit to materiality of £2.04m, performance materiality of £1.53m and report to you in this paper all misstatements above £102k. By way of comparison the materiality, performance materiality and trivial threshold for 2020 were £2.12m, £1.70m and £106k respectively.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report.

Conclude on significant risk areas

We draw to the Audit Committee's attention our conclusions on the significant audit risks. In particular the Audit Committee must satisfy themselves that management's judgements are appropriate.

Our audit report

Based on the status of the audit it is too early to form a conclusion on the likely form of our final audit opinion.

We will provide an oral update to the Audit Committee.

Significant risks

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	✓	✗	DI	⚠	✓	7
Completeness of expenditure	✓	✓	DI	⚠	✓	8
Management Override of Controls	✓	✓	DI	⚠	✓	9

Low Level of Judgement ⚠

Medium Level of Judgement ⚠

High Level of Judgement ⚠

Controls approach adopted

Assess design & implementation DI

Significant risks (continued)

Risk 1 – Property Valuation

Risk identified	As set out in our planning report, 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. 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 at the planning stage we understood 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. This is in line with approach undertaken at the year-end.
Our response	• We have examined 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 have tested the design and implementation of key controls in place around the valuations process and are awaiting replies to follow up queries; • 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 in line with ISA540 requirements; and • We have tested a sample of revalued assets and re-performed the calculation assessing whether the movement has been recorded through the correct line of the accounts.
Conclusions	Our work in respect of property valuations is in progress. We will provide a verbal update at the Audit Committee in respect of our work.

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 has included the following: • We have obtained 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 are performing 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 are awaiting responses to queries raised; and • We are reviewing and challenging the assumptions made in relation to year-end estimates and judgements to assess completeness of recorded expenditure.
Conclusions	Our work is in progress and awaiting receipt of information from the Authority to allow us to conclude. We will provide a verbal update at the Audit Committee in respect of our work.

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 have performed the following audit procedures that directly address this risk: • We have tested the design and implementation of key controls in place around journal entries and management judgments and are awaiting responses to follow up queries; • We have risk assessed journals and selected items for detailed testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest; • We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting; • We will also review management estimates for ISA540 scope; • We will review accounting judgements for biases that could result in material misstatements due to fraud; and • We have not become aware of any significant transactions 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.
Conclusions	Our work is currently in progress and subject to receipt of information in respect of queries and also clearance of challenges raised through our internal review procedures. We will provide a verbal update at the Audit Committee in respect of our work.

Value for money

Our work is in progress and will be reported in our Auditor’s Annual Report

Value for Money requirements

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 (‘AGN03’), 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, governance, and improving economy, efficiency and effectiveness);
- 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, 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 Value for Money arrangements, which might include emerging risks or issues arising; and
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

Status of our work

Our work is ongoing. Our Value for Money work will be reported in full in our Auditor’s Annual Report which is to be reported within a three month timeframe from the date of signing the financial statements. However under AGN03 we are required to undertake sufficient work to conclude that there are no matters which could have a material bearing upon our audit prior to signing the financial statements opinion. Accordingly this work must be substantially completed before the audit opinion can be signed.

Your control environment and findings

Control deficiencies and areas for management focus

We have included both findings from the current and prior year audit to provide the Committee with updates on recommendations made previously.

Area of observation	Year first communicated	Deloitte recommendation	Management response and remediation plan	2020/21 Update where appropriate
Collection Fund	2019/20	Management should review their accounting for the Collection Fund to ensure that the work papers and associated disclosure is in line with the CIPFA code.	It is managements intention to draft an early 2020/21 disclosure template and share this with the auditor to ensure compliance in advance of year end for 2020/21. Additional training to be taken within 2020/21.	A draft was not provided to the auditor in early 2020/21. Further queries have been raised with the Authority in the current year in respect of the accounting of the Collection Fund. There was an agreement on the 23rd July 2020 around the process for the 2019-20 accounting treatment, which has been replicated in the 2020-21 Statement of Accounts. Due to no further updates to the accounting treatment required it was felt this agreement in place would suffice.
Pensions	2019/20	From our review of the GAD report on the Firefighters Pension Scheme and the draft financial statements we note that the information provided to GAD in relation to the lump sums was incorrectly analysed between the 1992 and 2015 schemes and that a lump sum that was paid in 19/20 was not recorded within the information provided to GAD. Management should re-examine the quality control procedures in respect of the provision of information to GAD.	A review of the quality controls procedure to take place with an additional member of the team reviewing. The lump sum in question was paid in 19/20 but was not expected to be paid until 2 April 2020 (information disclosed from West Yorkshire Pension Fund) and therefore was not included at the time of compiling information to the Governments Actuarial Department (GAD) which was submitted in February 2020. Subsequently, this was amended for payment on 31 March 2020.	An additional member of the team was unable to review due to staff absence. However, there is greater resilience overall moving forward as 3 individuals have all covered Pensions work over the last 2 years. Checks were made between performing the task and reviewing.

Your control environment and findings

Control deficiencies and areas for management focus

Area of observation	Year first communicated	Deloitte recommendation	Management response and remediation plan	2020/21 Update where appropriate
Note 9 income classification	2019/20	Management should review the groupings of their ledger to ensure that the mapping then directly links to the note disclosure and is code compliant.	Review of general ledger codes assigned to income is required. The totality of income is complete and correct, however, the categorization on some general ledger codes is inconsistent to the category of income required.	A review of the general ledger codes was undertaken and a review between notes in the accounts for accuracy and completeness.
Expenditure control	2019/20	Management should review the expenditure control to ensure that it appropriately identifies both creditors and accruals. Currently the control involves a review of the Vendor Invoice Management (VIM) system, which records invoices received but not posted to the ledger, and the posting of these as accruals, which is incorrect in line with IAS 37. The review of the accruals identified by the respective officers in charge of directorates / profit centre did not have a formal approval and there was no formal review of the March monitoring capital report which included these items. There should be a re-examination of the design of the control and review of the quality control procedures in respect of this.	The amounts disclosed overall in both the Balance Sheet and Creditors (note 26) are complete and correct in their totality, however, the presentation needs additional review to be fully compliant with IAS37.	A comprehensive control process was put in place to review all amounts disclosed within the creditors note. Checks were verified against both the Vendor Invoice Management (VIM) system and the Goods Receipt Invoiced Received account (GRIR) on the balance sheet to verify both creditors and accruals. Accruals and final monitoring positions were formally signed off by officers in charge.

Your control environment and findings
Control deficiencies and areas for management focus

Area of observation	Year first communicated	Deloitte recommendation	Management response and remediation plan	2020/21 Update where appropriate
Assets Under Construction	2019/20	We note that from our enquiries, management do not routinely review their assets under construction balance for indicators of impairment. We recommend that this review is completed annually to ensure that if an impairment is identified this is recorded within the general ledger throughout construction rather than on reclassification to operational property plant and equipment.	The Authority fully revalues any Assets Under Construction once they become fully operational. We will take guidance from our external valuer and impair prior to becoming fully operational if required on the basis of that guidance.	There were no Assets Under Construction as at 31st March 2021.
Related party forms	2019/20	The related party forms require members to disclose any transactions between themselves and the Authority or any transactions between the Authority and a business controlled by themselves or a close relative. The related party forms should require members to disclose their interests rather than transactions, and then these disclosures used by the Authority in order to check for transactions.	Although in 2019/20 this would not have resulted in any overall change, an amendment to the form shall be made when disclosing related parties within the 2020/21 statement of accounts.	These were updated to include the disclosure of any interests.

Your control environment and findings

Control deficiencies and areas for management focus

Area of observation	Year first communicated	Deloitte recommendation	Management response and remediation plan	2020/21 Update where appropriate
Service Level Agreement	2018/19	As raised in the 2018/19 audit, we note that as part of the renegotiation of the SLA that WYFRA did not incorporate the routine receiving of assurance from KMBC on the hosted IT systems. Formal annual statements of assurance over the hosted IT systems should be received to incorporate: cyber security, incident monitoring / response, starters / movers / leavers, user access reviews, change management and backups.	Whilst the 2020/21 Service Level Agreement does not expressly set out the assurance statements to be received as part of Schedule 6 of the SLA on a quarterly basis, the Authority is in receipt of aforementioned information on an annual basis. At the point of the new agreement being drafted, this will be expressed in the new contract.	Quarterly assurance reports are now provided against the Key Performance Indicators (KPIs) within the SLA.
Componentisation of Property, Plant and Equipment	2019/20 Updated 2020/21	We note from review of the Property, Plant and Equipment that the componentisation of land and buildings has not been correctly applied. It is recommended that as part of the 2020/21 valuation review management adopt componentisation of land and buildings. Management had performed a componentisation assessment, however, this was only performed for 3 assets and no adjustments were made as a result.	The Authority is reviewing this process and will liaise with the auditor during January 2021.	The Authority performed this against three assets and received information from the external valuer of the potential component asset lives of assets. Management did not seek further information from the external valuer due to the time and cost associated with gathering this information on the basis of the sample of three. The Authority's accounting policy is to componentise assets whereby each component must represent at least 25% of the total cost and the Authority does not have any matching this criteria. Whilst there is a difference on the two measurement basis, this is under the threshold of materiality.

Your control environment and findings (continued)

Control deficiencies and areas for management focus

Area of observation	Year first communicated	Deloitte recommendation	Management response and remediation plan
Receipting of goods	2020/21	As a Covid-19 measure, there is a 48-72 hour storage requirement to booking in goods. The goods are receipted onto the OPEX system after this storage time, not prior. This therefore increases the risk that goods received 48-72 hours prior to the year-end may not have made it to the ledger at the year-end as they were held in Covid storage. We recommend that management review processes for booking in goods to ensure that goods are recognized in the correct period.	This will be reviewed alongside COVID restrictions in place prior to the end of the 2021-22 financial year. However, additional controls were added such as the review of receipting of goods in the purchasing system and invoices received at year end.
Review of work	2020/21	It is stated within the starters payroll process that any of the 3 members of the payroll team could input the details of a new starter and another person would authorise. This means that a junior team member could be reviewing a higher ranked employees work. There is a risk that a junior member would not want to raise any errors by their manager. It is therefore recommended that the inputting of starters is completed by a junior team member and reviewed by a senior team member rather than vice versa.	Due to the small nature of the team, this process is in place to give flexibility around any potential leave or unexpected absences from work. However, where possible the manager should review the work of more junior members of the team.
Information Security Policy update	2020/21	The Information Security Policy has not been reviewed and updated annually per the policy. The policy was last updated in April 2018. We understand that the updated policy has now been drafted and is awaiting final sign off before being issued. We recommend that a review of policies are completed in line with stated timeframe to ensure that they remain appropriate.	This will be reviewed to ensure timely updates to any policy within the Authority.

Your control environment and findings (continued)

Control deficiencies and areas for management focus

Area of observation	Year first communicated	Deloitte recommendation	Management response and remediation plan
Incomplete and inaccurate information provided to the valuer	2020/21	Through our controls work we have identified that Moortown Fire Station had been subject to external inspection in March 2021 and the valuer identified that the rear workshop and training tower had been demolished however there was no written evidence that this was not communicated to the valuer. We recommend that management ensure the valuer is provided with full written details of the changes to the estate and the associated impact on the floor area to ensure that the valuation is prepared on the correct basis.	We will implement this for the 2021/22 valuation cycle.
Business rates deficit	2020/21	The deficit in respect of the business rates has been allocated to Council tax within the draft set of financial statements. Management should review their processes in respect of allocating the deficits going forward to ensure that they are appropriately captured.	The deficit/surplus positions on both business rates and council tax are separately accounted for on the ledger. However, they post to the same general ledger code and on presentation to the note, the figures were not separately identified. A review of the process to take place.

Our audit report

The form and content of our report

Here we discuss how the results of the audit impact on our audit report. An overview of our financial statement audit work will be included in our Auditor’s Annual Report.

Our opinion on the financial statements

Based on the status of the audit it is too early to form a conclusion on the likely form of our final audit opinion.

We will provide an oral update to the Audit Committee.

Emphasis of matter and other matter paragraphs

To date there are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

To date there are no matters relevant to users’ understanding of the audit that we consider necessary to communicate in an other matter paragraph.

In 2019/20, the revaluation reports of externally revalued assets included a material uncertainty paragraph regarding the potential impact of Covid-19 on asset valuations. Due to updated RICS guidance for 2020/21, we do not expect to make reference to this in our opinion as an Emphasis of Matter.

Value for Money reporting by exception

Our opinion will note that our Value for Money work is ongoing and will be reported in our Auditor’s Annual Report.

We have no matters to date to report by exception in our financial statement audit opinion.

Irregularities and fraud

We will explain the extent to which we considered the audit to be capable of detecting irregularities, including fraud.

In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations. We will discuss the areas identified where fraud may occur and any identified key audit matters relating to fraud.

Recent changes to ISAs (UK) mean this requirement will apply to **all** entities for periods commencing on or after 15 December 2019.

Your annual report

We are required to report by exception on any issues identified in respect of the Annual Governance Statement.

	Requirement	Deloitte response
Narrative Report	The Narrative Report is expected to address (as relevant to the Authority): • Organisational overview and external environment; • Governance; • Operational Model; • Risks and opportunities; • Strategy and resource allocation; • Performance; • Outlook; and • Basis of preparation	We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance. We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We have provided our comments to management and will review the updated accounts, when received, for any remaining non trivial items.
Annual Governance Statement	The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. No issues were noted from our review.

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 help the Audit Committee and the Authority discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

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.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit Committee.

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

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

Deloitte LLP

Leeds| September 2021

Appendices

Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). Uncorrected misstatements increase the CIES by £0.376 million and decrease net assets by £1.180 million with the balance in reserves. We understand that management are correcting item 2, however, we have been unable to verify this to date as we have not received an updated version of accounts.

		Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) OCI/Equity £m
Misstatements identified in current year				
Prepayments	[1]		0.309 (0.309)	
Collection Fund	[2]	3.972 (3.972)		
ESMCP Grant	[3]		(0.400)	0.400
ESMCP Grant	[4]	0.250	(0.250)	
Misstatements identified in prior years				
		0.126	(0.530)	0.404
Aggregation of misstatements individually < £102k				
Total		**0.376**	**(1.180)**	**0.804**

[1] From our journals testing we have identified that the debtors and creditors balance are overstated by £309k.

[2] The deficit in respect of Business Rates was incorrectly disclosed within Council Tax income of note 13 rather than under Non- Domestic Rates of the same note.

[3] and [4] The Authority received 2 additional payments for the ESMCP Grant in May 2021, which management accounted for as receipts in advance. The nature of error 3 is that this should have been allocated as a reserve instead of a receipt in advance. For error 4, the terms and conditions prohibit the recognition of this top up payment in FY20/21.

Audit adjustments (continued)

Disclosures

Disclosure misstatements

We have provided comments on the financial statements to management and will review the updated accounts once received. We will provide a report to the Audit Committee on any remaining non-trivial disclosure deficiencies which we will request that you ask management to correct as required by ISAs (UK).

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 and our objectivity is not compromised.
Fees	Details of proposed fees for audit and non-audit services performed for the period have been presented separately on the following page
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 officers and senior management and its 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 for 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	TBC	33,714
Total fees	**TBC**	**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 fee level.

*We have agreed the additional audit fees to reflect the additional audit work that was required in respect of the 2019/20 audit of £5,932 with management. We are currently awaiting agreement from PSAA.

** As set out in our audit status the audit is running behind schedule as we await provision of requested evidence and as a result of a late alteration to the audit schedule by management. The delays to the audit may combine to result in additional audit fees which we will seek to agree with management once these are more closely understood.

Our approach to quality

AQR team report and findings

Executing high quality audits remains our number one priority. We are committed to our critical public interest role and continue to embed our culture of quality and excellence into all of our people. This includes using new technology and tools to continue to transform our audit approach.

In July 2021 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 2020/21 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.

In that context, overall FRC inspection results, showing an improvement since last year from 76% to 79% of all inspections assessed as good or needing limited improvement, reflect the progress we are making. The overall profile of our ICAEW inspections and our internal inspection programme also show a similar overall improvement since last year.

The results for the inspections of FTSE 350 entities fell short of our overall scores, reflecting specific findings on those particular audits rather than issues pervasive across other audits. Our objective continues to be for all 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 agree with and accept the FRC's findings on the individual inspections. The FRC has recognised improvements following the actions and programmes for previous years and we welcome the good practice points raised, including in respect of impairment and revenue where individual findings continue to occur.

Overall, we are pleased that there have been no significant findings over our firm wide processes and controls over the last three inspection cycles in the areas subject to rotational review by the FRC. However, we are continually enhancing our processes and controls across our business and such changes will directly or indirectly affect audit quality.

All the AQR public reports are available on its website. https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports

Our approach to quality

AQR team report and findings

The AQR's 2020/21 Audit Quality Inspection Report on Deloitte LLP

"We reviewed 19 individual audits this year and assessed 15 (79%) as requiring no more than limited improvements. Of the 11 FTSE 350 audits we reviewed this year, we assessed eight (73%) as achieving this standard".

"Our key findings related primarily to the need to:

- Improve the evaluation and challenge of management's key assumptions of impairment assessments of goodwill and other assets.
- Enhance the consistency of group audit teams' oversight of component audit teams.
- Strengthen the effectiveness and consistency of the testing of revenue."

"The firm has taken steps to address the key findings in our 2019/20 public report, with actions that included increasing the extent of consultations, and enhanced learning, coaching and support programmes.

We have identified improvements, for example, in the extent of challenge of management by audit teams in respect of the estimates used for model testing. This was identified as a key finding last year.

We also identified good practice in a number of areas of the audits we reviewed (including robust procedures relating to going concern and evidence to support the challenge of management in areas of key judgement) and in the firm-wide procedures (including establishing a centre of excellence focused on credit for banking audits to encourage the consistent application of the firm's methodology and guidance)."

Our approach to quality

AQR team report and findings

Improve the evaluation and challenge of management's key assumptions of impairment assessments of goodwill and other assets

How we have addressed this area as a firm

To address this finding, we have done, or plan, the following:

- We refreshed our Impairment Centre of Excellence ("COE") to establish clear partner leadership and introduced frequent communication touchpoints to share best practice, hot topics and technical updates.
- We performed a risk focused strategic allocation of impairment specialists for a selection of December 2020 audit engagements, taking into account industry knowledge and experience. Going forward we will seek to involve the EQCR partner to determine whether the allocated specialist should have industry knowledge or whether generalist knowledge would provide an enhanced independent challenge to an industry focused engagement team.
- We will update our impairment guidance notes and consultation document to include specific risk criteria which require further discussion with a panel of specialists, including, but not limited to, where the audit team develop their own model or where cashflow forecasts extend beyond a commonly used period.
- The launch of the Digital Blueprint project management tool will assist teams in prioritising their time across all areas of the audit.
- We will hold workshops with our partners and directors to bring to life the common causes that have led to FRC findings and to ensure greater consistency in expectations in respect of the expected depth of review.
- We have introduced a new coaching program to support the development of primary reviewing skills and to identify any reviewing skills gaps which need addressing.
- To respond to the poor quality and untimely preparation of information by the company for audit, we expect, where appropriate, to increase the communication with management and those charged with governance so that there are clearer expectations in respect of the quality of information prepared for audit.
- We have updated our impairment template memo to reflect the most recent inspection findings we will develop additional training materials on hot topics and areas of regulatory focus, for example, guidance to assist in the challenge of cash flow assumptions and cost reduction initiatives.
- We also developed a new template to support teams in auditing accounting estimates in response to the requirements of ISA (UK) 540 revised 'Auditing Accounting Estimates & Related Disclosures'.

How we addressed this area in our audit

- We have considered the Authority's approach to asset valuations including impairments on page 7.

Our approach to quality

AQR team report and findings

Enhance the consistency of group audit teams' oversight of component audit teams

How we have addressed this area as a firm

To address this finding, we have done, or plan, the following:

- We have appointed a partner who, together with a number of experienced directors, will lead a series of coaching workshops where we will walk through and discuss good practice examples (including those noted from external reviews) of how audit teams have undertaken group audits together with examples of where pitfalls have been identified. Those workshops will be attended by engagement teams to ensure a range of audits are covered and that those teams can also take learnings to their other group audits.
- We will also refresh our practice aid to develop a reference point for those good practice examples and learnings from the inspection cycle that will be made available to all audit practitioners. We also intend, as part of identifying good practice examples, to share templates that audit teams can use to evidence the communications held throughout the audit process with component audit teams. This will help to demonstrate the required oversight and direction performed by the group audit team by evidencing in detail the interaction / challenge / resolution of issues with component teams.
- We issued a reminder of the EQCR requirements with respect to the need to hold discussions with Key Audit Partners of material subsidiaries in our January 2021 EQCR briefing which was delivered to all EQCR reviewers.
- We have regularly communicated the FRC findings, including those on group audits to the wider audit practice during the inspection cycle through our National Accounting & Audit digest emails to ensure that audit teams who might be affected by the findings are fully briefed.

How we addressed this area in our audit

- The audit of West Yorkshire Fire and Rescue does not involve a group team.
- We engage with the West Yorkshire Pension Fund auditors through our work and have conversations with them throughout the audit process.

Our approach to quality

AQR team report and findings

Strengthen the effectiveness and consistency of the testing of revenue

How we have addressed this area as a firm

To address this finding, we have done the following:

- We included a 'Substantive Analytical Review ("SAR") revenue deep dive' in our mandatory monthly professional training update in September 2020. This focused on appropriate planning, testing requirements including use of independent data sources and threshold calculations and how to avoid common pitfalls.
- Included a mandatory session on auditing revenue, which included the use of SAR within our Engagement Team Based Learning ("ETBL") coaching sessions for the 2020 programme. This focused teams on the overall approach taken in order to ensure that our teams understood transaction flows and that audit tests were designed appropriately.
- In late 2020 we updated the guidance given to consulted parties about how to respond to the consultations audit teams are required to undertake when using the audit regression software analysis to audit both revenue and cost of sales. This was to ensure that the consulted parties were being provided with all the relevant facts and circumstances when evaluating the appropriateness of using the software to assist us in performing substantive analytical procedures on both account balances in this way.
- We have held additional training sessions for our manager group which focused on reviewing skills with the aim of improving the quality of primary reviews undertaken. This will ensure appropriate focus is being placed on the review of areas where substantive analytical review is performed.

We also plan to do the following:

- For December 2021 year ends, we have introduced a new policy, which applies to listed and PIE entities in the UK and requires teams to identify and test the operating effectiveness of relevant controls for material revenue streams. Our main annual training ("TechEx"), includes a learning journey, comprised of various modules on internal controls, including a focus on the new policy as a hot topic, a deep dive session on revenue review controls, and a module on evaluating General IT Control deficiencies.
- The Deloitte Substantive Analytic Review Guide is also being updated to incorporate our learnings from these audit inspections.

How we addressed this area in our audit

We have reviewed our approach to testing revenue to ensure that it includes appropriate independent data sources and have also performed some substantive work.

Our other responsibilities explained

Fraud responsibilities and representations

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. 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.

Required representations:

We have asked the Audit Committee to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Authority.

We have also asked the Audit Committee to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:

In our planning we identified the risk of fraud in the completeness of expenditure and management override of controls as significant audit risks. Our work in respect of the significant audit risks, as outlined earlier is in progress. We will provide an update to the Committee when our work is complete.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

Concerns:

From our work to date we do not have anything to bring to the Audit Committee's attention.

Value for Money deadline extension

Letter to the Audit Committee highlighting Value for Money deadline extension

Dear Audit Committee

The National Audit Office issued guidance to auditors on 16 April 2021 setting out a revised timetable for completion of work on arrangements to secure value for money. This revised timetable reflected the impact of the ongoing pandemic on preparers and auditors of accounts. That guidance, established that the Auditor's Annual Report should be published within three months of the signing of the Audit Opinion. Therefore we have not yet issued our Auditor's Annual Report. Under the 2020 Code of Audit Practice, we are required to provide this letter setting out the reasons for the Auditor's Annual Report not being issued by 30 September 2021.

Yours faithfully

Paul Hewitson

OFFICIAL

Revenue Outturn 2020 - 21

Audit Committee

Date: 30 September 2021

Agenda Item: **8**

Submitted By: Chief Finance and Procurement Officer

Purpose

To report on the financial outturn for 2020-21
To report on the payment of Members allowances in 2020-21

Recommendations

That Members note the report

Summary

The report presents details of the Authority's financial outturn for 2020/21 and Members' allowances payments in 2020/21.

Local Government (Access to information) Act 1972

Exemption Category: None

Contact Officer:

Alison Wood

Alison.wood@westyorksfire.gov.uk

01274 682311 ext 60204

Background papers open to inspection: Statement of Accounts

Annexes: Appendix A - Members Allowances 2020-21

1 Introduction

The purpose of this report is to present a comprehensive review of the financial activity of the Authority for the financial year 2020/21 looking at the following areas.

1.1 Revenue Expenditure

This section compares the actual expenditure for the year with the revenue budget, enabling the Authority to measure financial performance. The report is in a similar format to the revenue monitoring reports presented to each meeting of the Finance and Resources Committee providing an explanation of the major variations.

1.2 Capital Expenditure Outturn

This section reports on actual capital expenditure for the year, compares this performance with the approved Capital Plan, and describes the more significant variations. It also provides details of the major capital schemes completed within the year.

1.3 Members' Allowances Outturn

Finally, the report includes details of the sums paid to individual Members in respect of their various allowances. This is a statutory requirement under Regulation 26A of the Local Authorities (Member Allowances) Regulations 1991, as amended. Members allowances are detailed in Appendix A.

2 Information

2.1 Revenue Expenditure

Throughout the year the Authority received regular financial review reports which provides members with financial information on expenditure on both revenue and capital.

During the financial year it became apparent that some of the assumptions underlying the calculation of the 2020/21 budget had changed which resulted in the transfer of £0.678m to contingencies during the year, which were approved at Finance and Resources Committee in October 2020 and February 2021.

In addition, £4.259m of capital schemes were slipped which were due to the effect of the pandemic on the delivery of the capital plan.

The Covid19 pandemic had a significant impact both on revenue and capital expenditure during the year, both of which resulted in significant underspends. Revenue was impacted by changes in employees working arrangements and difficulties in progressing projects and the capital plan due to contractor restrictions relating to social distancing requirements.

In 2020/21, the Authority received an additional £2.093m in Covid19 grant funding from Central Government, of which £1.355m is remaining at the 31st March 2021. The Authority has used this grant primarily to fund overtime costs, the buy-back of annual leave and the purchase of ICT equipment and PPE to support home working and to keep employees safe. Although this grant is not ring fenced, for transparency and accountability it has been allocated to a separate earmarked reserve called Covid19 on the Balance Sheet.

Details of revenue expenditure outturn for 2020/21 are shown in the table below:

Description	Revised Revenue Budget £000	Outturn £000	Planned Transfer to Reserves £000	Variance £000
Employees				
Operational Staff	52,678	52,197		-481
Support Staff	10,413	10,272		-141
Pensions	2,000	1,487	513	0
Training	685	687		2
Other Employee expenses	415	361		-54
Premises	4,778	4,636		-142
Transport	2,157	1,965		-192
Supplies and Services	5,504	5,114	275	-115
Contingency	3,561	0	3,561	0
Support Services	326	308		-18
Capital Charges	8,150	8,150		0
Expenditure	**90,667**	**85,177**	**4,349**	**-1,141**
Income	**-3,044**	**-3,393**		**-349**
Net Cost of Service	**87,623**	**81,784**	**4,349**	**-1,490**
Additional contribution to capital financing		5,051		
Increase in Earmarked Reserves		2,645		
Overall Financial Position	**87,623**	**89,480**		
Funding		**-89,480**		
Net Financial Position		**0**		

A brief explanation of the major variances against budget are as follows:

2.2 **Operational Employees -£481k**

The underspend of £481k is due to a combination of additional retirements, vacant posts, and the charging of allowances and overtime against the Covid19 grant. These are explained in more detail below:

- There is an underspend of £207k on firefighters basic pay which is due to variances in the expected retirement dates of operational employees and vacancies within the day crewing system. The budget for salaries is based on the expected retirement of the employee, if the employee retires before this date, there will be a budget saving.

- There is an underspend of £147k on the payment of additional responsibility and duty system allowances which is attributable to the vacancies at day crewing stations.

- The cost of sending operational crews to cover shifts on other fire stations has been chargeable to the Covid19 grant, this has resulted in a credit of £106k to the detached duties budget. Unlike overtime, detached duties cannot be charged directly via payroll, so a recharge to the grant has been made at the end of the financial year.

- There has been an underspend on overtime of £21k which is due to the charging of shifts to the Covid19 grant.

2.3 **Support Staff** **-£141k**

The underspend on support staff is attributable to support staff vacancies, due to the length of the recruitment process there is a time lag in filling vacant posts, the target for the recruitment cycle is 84 days. The vacant posts are primarily within the fire protection department. Recruitment to these posts is ongoing and a number have been appointed during 2021/22.

2.4 **Other Employee Expenses** **-£54k**

The £54k underspend is in relation to relocation costs of £27k which is directly linked to vacant posts within the day crewing system and there is an underspend of £27k on specialist and medical fees which can be linked to a reduction in medical appointments during the year due to Covid19.

2.5 **Premises** **-£142k**

Finance and Resources Committee in October 2020 approved a budget of £100k for the provision of day crewed accommodation, due to delays in the implementation of the revised day crewing system, this budget remains unspent at the end of the financial year.

In addition, there has been an underspend on utilities of £42k.

2.6 **Transport** **-£193k**

The large underspend on transport related expenses is directly attributable to the effects of the pandemic on activity, £99k is due to savings on vehicle fuel, £60k on a reduction in the payment of travel costs and £28k from a reduction in vehicle lease costs.

2.7 **Supplies and Services** **-£115k**

Once again, the underspend is attributable to the pandemic, due to the suspension of face-to-face meetings and training and the requirement for non-operational staff to work from home, there has been an underspend on subsistence, conferences expenses, training equipment and photocopying totalling £119k. There has also been increase in the value of stock holdings for clothing and operational equipment amounting to £200k, which is a credit to the revenue budget.

These underspends have been offset by an overspending on ICT maintenance contracts and subscriptions.

2.8 **Income** **-£349k**

The over achievement of income is due to the receipt of £772k of government grant to support the building risk review work associated with Grenfell of which £248k was left remaining at the end of the financial year. The authority also recharged £56k more for secondments than originally budgeted.

This additional income was offset by an underachievement of income from youth intervention, provision of external training courses and unwanted fire calls. A claim was made against the Sales, Fees and Charges compensation grant, this new, one-off income loss scheme compensates for irrecoverable and unavoidable losses from sales, fees and charges income generated in the delivery of services in 2020/21. Authorities have to absorb losses up to 5% of their planned sales, fees and charges income with government compensating 75p in every £1 of relevant income lost thereafter. The Authority claimed £141k of this grant in 2020/21, against a budgeted income of £188k, resulting in an unfunded loss of income of £47k.

2.9 **Capital Financing Requirement**

In order to keep the capital financing requirement at an affordable level, the Authority has used the underspend on the revenue budget and contingencies to make additional voluntary minimum revenue payments. The Authority has an ambitious capital plan over the next four years and by making these additional voluntary capital payments, the charge to the revenue budget of financing the capital plan in the future is reduced, thus easing the financial pressure on the medium-term financial plan.

2.10 **Transfer to Reserves**

As per the Authority's reserves strategy, the following were planned transfers to reserves during the year:

- The budget for ill health pensions was under spent by £513k, which is transferred to the pension equalisation reserve.

- Expenditure totalling £275k on the lean working, procurement, and property reviews and the purchase of vehicles and equipment for the Command and Leadership Management (CLM) project have been funded from the Service Support Reserve.

- The contingency budget underspend although initially chargeable to reserves, has been used to make additional revenue contributions to capital financing, as explained in the paragraph above.

2.11 **Usable Reserves**

The Authority has a General Fund Reserve and a number of Earmarked Reserves. The General Fund Reserve is used to fund any day-to-day cash flow requirements or cover any unexpected expenditure that is not included within the revenue budget. Earmarked Reserves are funds that are set aside for specific purposes for which a liability may incur at some point in the future.

The Authority's reserve strategy was approved at Finance and Resources Committee on 16 October 2019 and is also reviewed as part of the budget approval process in February 2020. The reserves strategy is published on the Authority's website.

The table below gives a summary of the Authority's reserve position as at the 31 March 2021:

31 March 2020 £'000		31 March 2021 £'000
5,000	**General Fund**	**5,000**
	Earmarked Reserves:	
40	Body Bag Decontamination	40
1,114	Business Rate Appeals	1,114
16,154	Capital Finance Reserve	18,306
563	Control Room	563
27	Council Tax Reform	27
406	COVID-19	1,355
46	Data Transparancy	54
202	Enhanced Logistics	202
258	ESMCP	258
419	Insurance Claims	419
2,000	Medium Term Funding Impact	2,000
3,627	Pay and Prices	2,127
4,070	Pensions Equalisation	4,583
742	Service Support	343
-	Tax Income Guarantee	922
29,668	**Total Earmarked Reserves**	**32,313**
0	**Capital Receipts Reserve**	**85**
34,668	**Total Useable Reserves**	**37,398**

2.12 **General Fund Balances**

The General Fund Balance has been maintained at £5m, this reserve is used to fund any day-to-day cash flow requirements and can be used as a contingency in the event of any unexpected events or emergencies.

2.13 **Earmarked Reserves**

Members at the Finance and Resources Committee in February 2021 granted approval for the transfer of £1.5m from the pay and prices earmarked reserve to the capital finance reserve. The Authority has used its earmarked reserves to fund the following expenditure in 2020/21:

- The capital finance reserve has been used to fund the costs associated with the rebuild of Wakefield Fire Station and the refurbishment of Cookridge, Illingworth and Moortown fire stations.

- An additional £2m has been transferred to the capital finance reserve, this will be used to support the redevelopment of the FSHQ site and the rebuild of Keighley Fire Station which are due to commence in Spring 2022.

- The underspend on the ill health pension revenue budget is automatically transferred to the pension equalisation reserve in line with the Reserves Strategy which is approved annually at Finance and Resources Committee.

- The Service Support Reserve has been used to fund the costs of the lean working, procurement, and property reviews and the purchase of vehicles and equipment for the Command and Leadership Management (CLM) project.

- The authority received £2.093m in Covid19 grant, the remaining balance of £1.355m at 31 March is held in the Covid19 earmarked reserve for transparency.

- To compensate authorities for the loss on irrecoverable council tax and business rates experienced due to Covid19, the government has paid in advance the Tax Income Guarantee grant of £0.922m, which is to support the revenue budget over the next three financial years. This is held in the Tax Income Guarantee Reserve.

The movements described above has resulted in a net increase of the level of usable reserves of £2.645m from 2019/20 to 2020/21.

Capital Receipts Reserve

The private number plate WY1 was sold during 2020/21 following approval at Executive Committee and it was agreed that the proceeds would be used to fund a new firefighter memorial to be erected outside the new FSHQ building. This money will be kept separate in the capital receipts reserve until this is expended.

2.14 **Capital Expenditure Outturn**

Each year the Authority produces a capital programme to manage major capital schemes. Owing to the nature of capital expenditure, a large number of schemes span more than one financial year, therefore the programme is a rolling programme covering four financial years.

The Authority spent £4.229m on capital during 2020/21 against an approved capital plan of £8.271m, details of expenditure by directorate is shown in the table below:

Directorate	**Original Capital Plan 2020/21**	**Slippage 2019/20**	**Approved Virements and additions 2020/21**	**Revised Capital Plan**	**Outturn 2020/21**	**Variance**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Property	2,160	791	-1,867	**1,084**	622	-462
IRMP	1,050	1,575	-	**2,625**	1,213	-1,412
Information Communications and Technology	2,417	932	-1,096	**2,253**	1,289	-964
Employment Services	102	0	18	**120**	41	-79
Transport	43	252	-153	**142**	180	38
Operations	1,108	1,582	-1,222	**1,468**	682	-786
Fire Safety	500	79	-	**579**	202	-377
Total	7,380	5,211	-4,320	**8,271**	**4,229**	**-4,042**

Due nature of capital expenditure a number of schemes are slipped between financial years, this is due to the length of time taken to identify and procure equipment of a high value or to undertake the required planning before major property refurbishments can commence. Also, during the year, new priorities are identified which requires either additions to the current capital plan or transfers between existing capital schemes.

During 2020/21, capital expenditure of note, was incurred on:

- The completion of Wakefield Fire Station new build incurred expenditure of £1.214m. The station became operational in October 2020. This was funded from the capital finance earmarked reserve.

- The purchase of mobile phones and VOIP totalling £0.307m which improved communications across the organisation.

- Updates to computer network switches, virtual servers, and computer hardware totalling £0.591m.

- The purchase of Battery Powered Portable Pressure Ventilation fans costing £0.215m which are used by operational crews at incidents.

The capital expenditure incurred has been funded wholly by internal funds. The Authority has not taken out any long-term external borrowing since December 2011 which has saved the Authority an estimated £5.4m in interest charges over the period. The Authority uses its own internal cash to fund expenditure rather than taking out loans, cash flow is boosted in July each year following the receipt of Pension Top Up Grant from Central Government which totalled £31.9m in 2020/21.

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2.15 **Treasury Management**

The Authority's borrowing is undertaken in accordance with the Prudential Code which provides the regulatory framework to ensure that all borrowing is prudent, affordable and sustainable. This framework is laid out in the Treasury Management Strategy.

The Authority's Treasury Management Strategy is reviewed annually as part of the budget approval process. The strategy sets out the Authority's policies and parameters to provide an approved framework within which officers undertake the day-to-day treasury activities.

The Authority's total long-term debt outstanding as at the 31st March 2021 was £45.6m of which £43.6m was owed to the Public Works Loans Board and £2m in the form of a LOBO with Dexia.

The Authority earned £0.196m in income from its investments during 2020/21 (£0.307m 2019/20), the final balance of short-term investments as at the 31st March 2021 was £20.6m (£20.0m 2019/20).

3 Financial Implications

3.1 These are included within the report.

4 Legal Implications

4.1 The Monitoring Officer has considered this report and has no observations to make at the time of submission of this report but may provide legal advice at the committee meeting and/or respond to any requests by Members for legal advice made at the meeting.

5 Human Resource and Diversity Implications

5.1 There are no human resource and diversity implications.

6 Equality Impact Assessment

Are the recommendations within this report subject to Equality Impact Assessment as outlined in the EIA guidance? (EIA guidance and form 2020 form.docx (westyorksfire.gov.uk))	**No**

7 Health, Safety and Wellbeing Implications

7.1 There are no health, safety and wellbeing implications.

8 Environmental Implications

8.1 There are no environmental implications.

9 Your Fire and Rescue Service Priorities

9.1 Budget monitoring and reporting underpins all the fire and rescue priorities.

10 Conclusions

10.1 This report has provided a summary of revenue outturn, reserves, and capital expenditure for 2020/21. The report also includes details of Members' allowances.

Appendix A

	Basic Allowance	Special Responsibility Allowance	Expenses
Cllr Angela Tait	£3,839.64	£4,237.68	
Cllr Angela Wenham	£3,839.64	£4,237.68	
Cllr Cahal Burke	£1,197.31		
Cllr Caroline Anderson	£3,839.64		
Cllr Darren O'Donovan	£3,839.64	£21,183.12	
Cllr David Hall	£3,839.64		
Cllr David Jenkins	£3,839.64		
Cllr David Kirton	£3,839.64		
Cllr Fozia Shaheen	£3,839.64		£10.40
Cllr Gohar Almas	£3,839.64	£4,237.68	
Cllr Jeanette Sunderland	£3,839.64	£1,058.88	
Cllr Joshua Fenton-Glynn	£3,739.64	£1,058.88	
Cllr Karen Renshaw	£3,839.64	£1,058.88	
Cllr Michael Pollard	£3,839.64		
Cllr Mohammed Akhtar	£2,652.65		
Cllr Mussarat Pervaiz	£3,839.64	£1,058.88	
Cllr Nussrat Mohammed	£3,839.64		
Cllr Peter Harrand	£3,839.64	£4,237.68	
Cllr Richard Hunt	£3,839.64		
Cllr Ron Grahame	£2,559.76	£2,825.12	
Cllr Ryk Downes	£3,839.64		
Cllr Stephen Tulley	£3,839.64	£10,591.92	
Cllr Tracy Austin	£3,839.64	£100.85	
Mr Michael Wilkinson	£375.00		