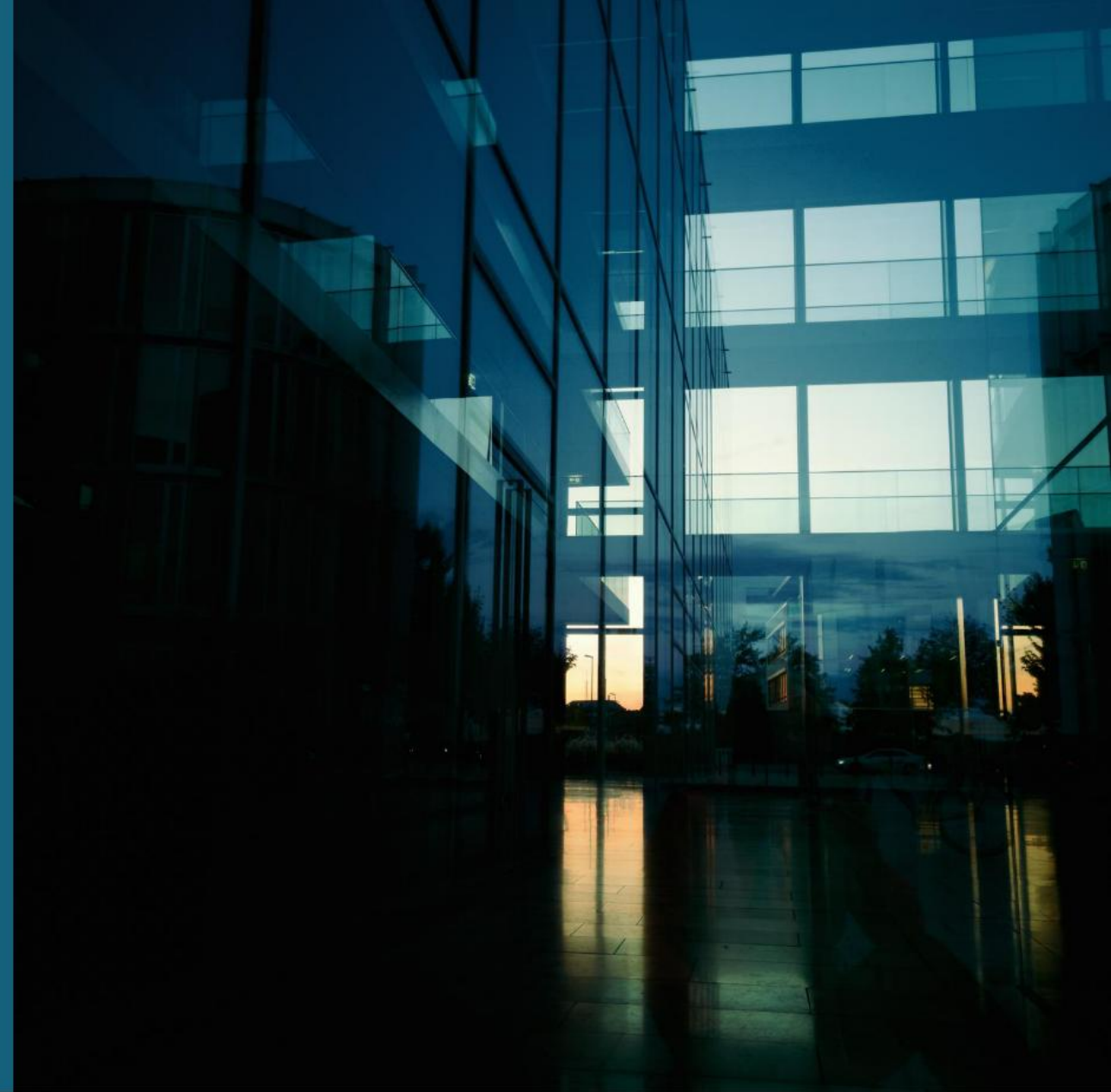


# Auditor's Annual Report

Tyne and Wear Fire and Rescue  
Authority – year ended 31 March 2023

April 2024



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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

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# 01

## Section 01: **Introduction**

# 1. Introduction

## Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Tyne and Wear Fire and Rescue Authority ('the Authority') for the year ended 31 March 2023. Although this report is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



### Opinion on the financial statements

We issued our audit report on 1 March 2024. Our opinion on the financial statements was unqualified.



### Value for Money arrangements

In our audit report issued we reported that we had not completed our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Authority's arrangements.



### Wider reporting responsibilities

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data and to carry out certain tests on the data. As for 2021/22, we anticipate a delay before we will be able to issue our 2022/23 audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.

# 02

Section 02:

**Audit of the financial statements**

## 2. Audit of the financial statements

### The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Authority and whether they give a true and fair view of the Authority's financial position as at 31 March 2023 and of its financial performance for the year then ended. Our audit report, issued on 1 March 2024 gave an unqualified opinion on the financial statements for the year ended 31 March 2023.

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

# 03

Section 03:

**Commentary on VFM arrangements**

### 3. Commentary on VFM arrangements

#### Overall summary





# 3. VFM arrangements – Overall summary

## Approach to Value for Money arrangements work

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



**Financial sustainability** - How the Authority plans and manages its resources to ensure it can continue to deliver its services



**Governance** - How the Authority ensures that it makes informed decisions and properly manages its risks



**Improving economy, efficiency and effectiveness** - How the Authority uses information about its costs and performance to improve the way it manages and delivers its services

Our work is carried out in three main phases.

### Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Authority has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

### Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

### Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgements we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Authority. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**  
We make these recommendations for improvement where we have identified a significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations**  
We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

# 3. VFM arrangements – Overall summary

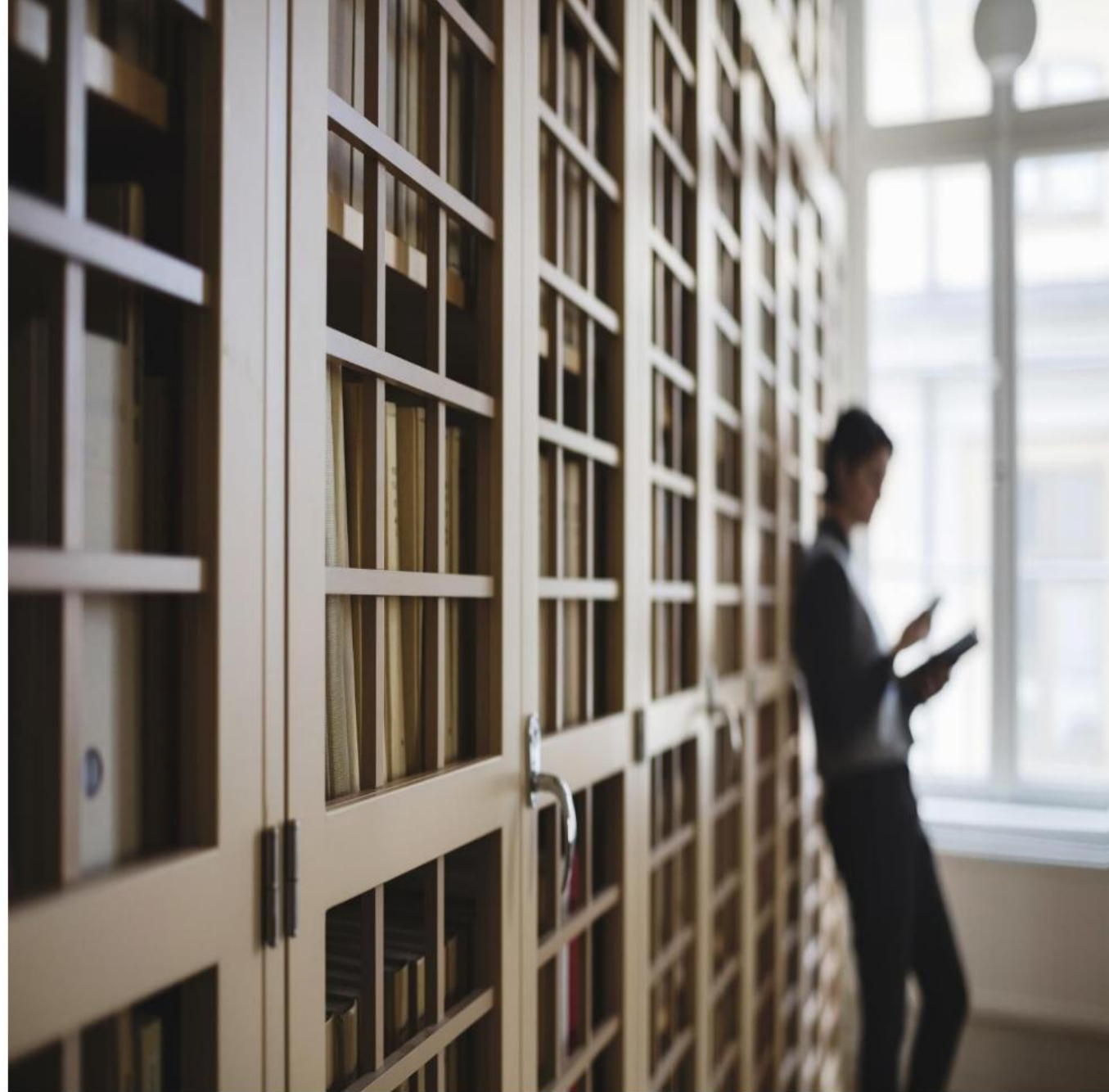
## Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 <b>Financial sustainability</b>	11	No	No	No
 <b>Governance</b>	14	No	No	No
 <b>Improving economy, efficiency and effectiveness</b>	17	No	No	No

### 3. Commentary on VFM arrangements

#### Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

### Overview of 2022/23 Financial Statement Performance

We have undertaken a high-level analysis of the audited financial statements, including the Movement in Reserves Statement and the Balance Sheet.

The Authority's useable reserves were £39.061 million at 31 March 2023 compared to £40.908 million at 31 March 2022. This movement was in line with the budget. The General Fund Balance remained consistent at £4.072 million compared to £4.089m at 31 March 2022. This is in line with the Authority's reserve policy. These reserves provide some mitigation against future financial challenges. Reserves include £18.006m in the Capital Development Reserve which is intended to fund the medium term capital programme. The Authority will need to ensure that any use of reserves to smooth the financial position over the next few years continues to be properly planned. The use of reserves cannot be relied on to provide a long-term solution to funding gaps.

### How the Authority identifies significant financial pressures that are relevant to its short and medium-term plans

The Authority produce a revenue budget each year, as well as a longer-term Medium Term Financial Strategy (MTFS). The MTFS covers a four-year period and we have confirmed it is updated on an annual basis. The MTFS is reported to the Authority annually.

The Authority has an established process for developing its MTFS, with a history of either meeting or underspending against its financial targets. The outturn in 2022/23 against budget was an underspend of £1.9m against expected overspend of £0.2m. This is despite challenging circumstances due to public sector austerity as well as inflationary pressures.

We confirmed through review that arrangements for approving and reporting of the budget and MTFS remained in place during 2022/23 and continue to be based on established arrangements. We confirmed the Authority reports regularly on its financial performance to the Policy and Performance Committee, Governance Committee, and the full Authority. This was evidenced through our review of minutes of those meetings, as well as our attendance at the Governance Committee throughout the financial period.

The original Capital Programme and Vehicle Replacement Programme for 2022/23, approved by Members, included planned capital expenditure of £12.655 million. The outturn against plan was reported in the summer of 2023 as £5.025m. The main reason for the lower outturn was associated with the delay in the Hebburn Station which was lower by £10.4m than plan. This is being delivered in 2023/24.

### How the Authority plans to bridge funding gaps and identify achievable savings

The MTFS sets out savings required to bridge the funding gaps over the medium term. The MTFS covering the period 2023/24 to 2026/27 was presented to the Authority alongside the 2023/24 revenue budget for approval in February 2023. The MTFS showed a balanced position for 2023/24 but a funding gap of £2.920m over the life of the MTFS. The current MTFS is based on use of reserves to bridge this gap. Although the future budgets are based on a series of assumptions for which there is a large degree of uncertainty, particularly with regards to the future levels of funding to be received from the Government. As part of our work, we have considered the assumptions used and are satisfied that they are based on the most up to date information available and are not unreasonable. Our review of minutes, attendance at meetings and discussions with management demonstrate the financial position is continuously monitored and regularly updated by the Finance Director for any changes as and when the funding position becomes clearer. As reported to full Authority in January 2024 the Authority is forecasting an underspend of £0.607m.

The Medium-Term Financial Strategy, approved in February 2024, identified a £3.3 million funding gap by 2027/28 with reserves planned to bridge this gap. The 2024/25 budget is balanced and plans no use of reserves.

The Authority retains an appropriate level of earmarked reserves as determined by the Authority's MTFS and Risk Analysis. The level of earmarked reserves remained stable in 2022/23 and although it reduced slightly in 2022/23 the Authority still held £33.4 million in earmarked revenue reserves at 31 March 2023, which represents 65% of the net budget. The reserves continue to be reviewed by senior management of the Authority, including the Finance Director, to ensure they are robust, appropriate and will meet the assessed financial risks of the Authority. Our review of minutes has confirmed there is challenge on the use of reserves by members.

Although the MTFS reports a challenging position to the Authority in future periods, the Authority is not alone in facing these challenges as we understand that this is the position across a majority of public sector bodies. Previous performance has shown that the Authority are able to successfully balance their budgets and respond to changes effectively. However as previously noted, the use of reserves cannot be relied on to provide a long-term solution to funding gaps, therefore further savings and/or sources of additional income continue to be required, which the Authority is aware of and is actively exploring options to address.

# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria - continued

### How the Authority plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

Resources follow priorities through the MTFS, which is sustainable over the four-year period whilst maintaining what the Authority considers, a prudent general minimum reserve which is risk assessed annually and reported to the Authority.

Our review of outturn and the MTFS has not identified a reliance on short-term fixes other than the planned use of reserves which have been specifically built up in recent years (including 2021/22) to support the phasing of savings measures over the next few years. It is important to remember that the MTFS is based on several key assumptions which are still uncertain but are monitored closely by officers and, where necessary, the MTFS is updated accordingly. We are satisfied through our work that regular monitoring and reporting of the financial position means that this is not unsustainable and does not indicate a significant weakness in arrangements. The Authority is reasonably placed to support the sustainable delivery of services and recent reports indicate operational performance is still strong.

### How the Authority ensures that its financial plan is consistent with other plans

The MTFS is underpinned by workforce planning and the asset management plan and takes account of risks and planning assumptions within the Integrated Risk Management Plan (IRMP). We have not identified any inconsistency between the various plans in prior years or from our review of the new IRMP.

The Authority work closely with Sunderland City Council, who are responsible for the Treasury Management function on behalf of the Fire Authority. Treasury Management, including Borrowing Strategy and Risk management Reviews, are reported on a regular basis to the Governance and Authority Committees, with the Treasury Management Policy and Strategy for 2022/23 being approved by Full Authority at the meeting in March 2022. We observed the 2024/25 Policy being scrutinised at the February Governance Committee.

### How the Authority identifies and manages risks to financial resilience

The MTFS outlines uncertainties, challenges, and risks facing the Authority over the life of the plan. Appendix C of the MTFS presented to full Authority in February 2023 details the financial risk analysis carried out by the Authority to show the potential risks and impact of those risks on the MTFS. Work is undertaken to understand

possible future impacts on the budget, and the Authority's medium term budget projections consider various budget pressures, such as pay and price increases, as well as the revenue implications of the capital programme and other pressures. The Authority also hold general reserves of £4.072 million which reflect the Section 151 Officer's financial risk assessment and in the 2022/23 financial plan represented 8% of budget. There have been no significant overspends or unplanned use of reserves in recent years.

We confirmed through observation there is regular monitoring of the risk register by the Governance Committee, along with overview and scrutiny by the main Fire Authority. Most recent review of 2022/23 risk register was at the 6 March 2023 Governance Committee.

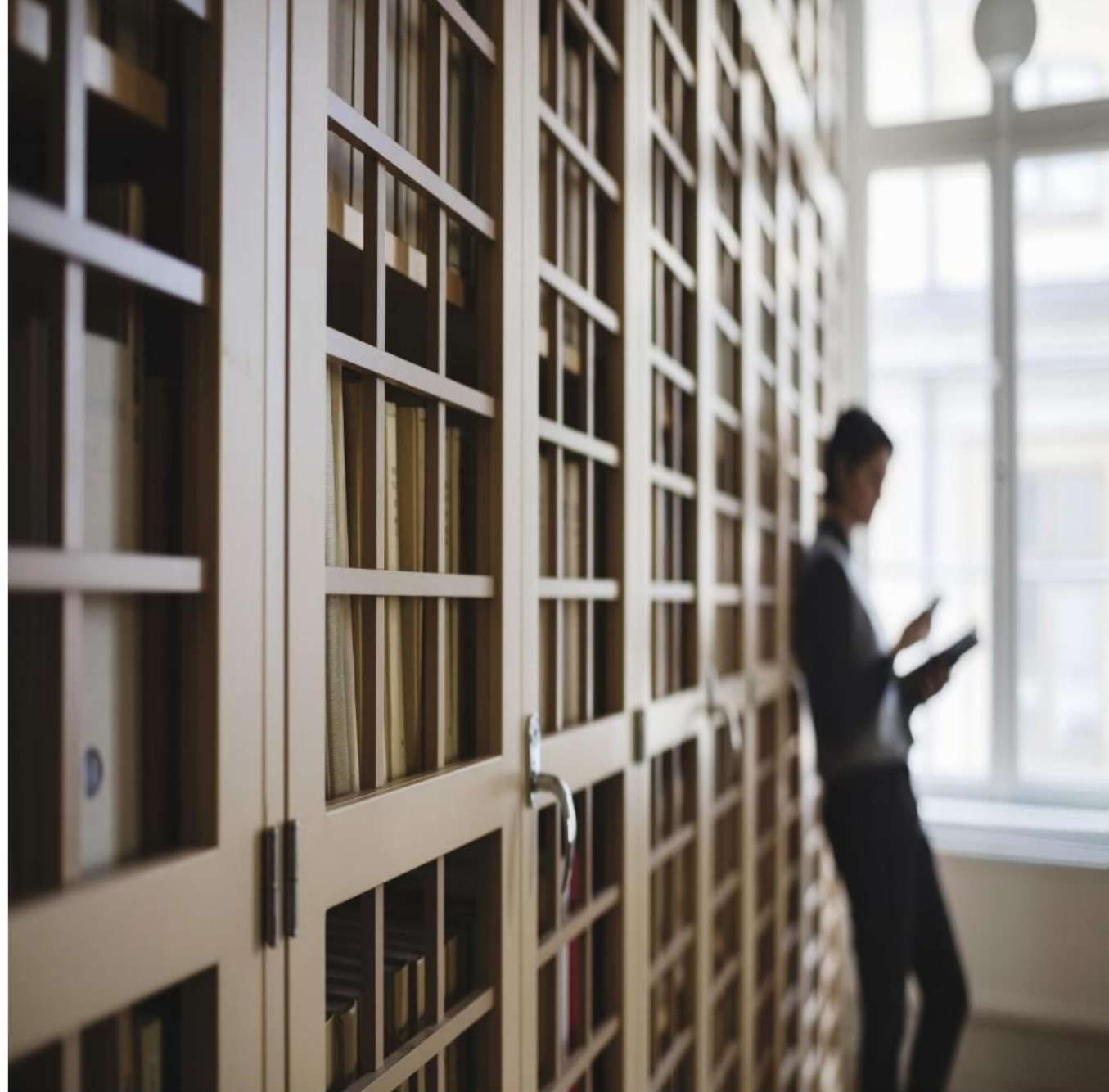
We confirmed through review of minutes there was regular reporting of the Authority's 2022/23 financial position to full Authority throughout the year. The outturn report presented to the July 2023 Authority meeting was consistent with the financial position reported during the year and did not indicate a weakness in the Authority's budget monitoring and reporting arrangements.

Based on the above considerations we are satisfied there is not a significant weakness in the Authority's arrangements in relation to financial sustainability.

### 3. Commentary on VFM arrangements

#### Governance

How the body ensures that it makes informed decisions and properly manages its risks



# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### How the Authority monitors and assesses risk and how the Authority gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Authority has approved a Code of Corporate Governance, which is consistent with the seven principles of good governance as identified in the CIPFA/SOLACE 2016 Framework – “Delivering Good Governance in Local Government”. Furthermore, a Corporate Governance Action plan is also in place which is updated on a regular basis. Our review of the Code of Governance has not identified any significant weaknesses in arrangements. The Annual Governance Statement 2022/23 - Annual Action Plan was presented at the Governance Committee in June 2023.

The Authority also has a Governance Committee in place to provide:

*“independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it effects the Authority's exposure to risk and weakens the control environment, oversees the financial reporting process and promotes and maintains high standards of conduct by Members of the Authority”.*

Our attendance at Governance Committee meetings during the year, as well as review of minutes, has not highlighted any weaknesses in arrangements. We are satisfied there is a sufficient level of scrutiny and challenge by members.

The Authority's internal audit function is provided by Sunderland City Council. Review of minutes and attendance at Governance Committee has confirmed internal audit is active and uses a risk-based Internal Audit Plan to determine the priorities of the internal audit activity, consistent with the organisation's goals. The 2022/23 Internal Audit Plan was taken to the Governance Committee and approved in March 2022. We confirmed through attendance at meetings there was regular reporting of progress against the internal audit plan. The Annual Internal Audit Report 2022/23 was presented to Governance Committee in June 2023. The conclusions in this report included

*This report provides assurance that sufficient audit work was completed within the year to enable an opinion on the Authority's internal control environment, with no high or significant risk issues being identified.*

*Using the cumulative knowledge and experience of the systems and controls in place, including the results of previous audit work and the work undertaken within 2022/23, it is considered that overall, the Authority continues to have a good internal control environment.*

The report provides detail on the performance of Internal Audit for 2022/23, areas of work undertaken, and the internal audit opinion regarding the adequacy of the overall system of internal control within the Service. We have reviewed this report and identified no evidence to indicate a significant weakness in arrangements.

As part of our audit procedures we also considered the Authority's Annual Governance Statement which was reported to the Fire Authority in June 2023. The report noted that:

*“Opinion on the Governance Framework The review of the effectiveness of the governance framework shows that the arrangements continue to be fit for purpose and reasonable assurance can be given that the framework is operating adequately in practice (6.1). No review can provide absolute assurance; this statement is intended to provide reasonable assurance that there is an ongoing process for reviewing the governance framework and its operation in practice (6.2). Whilst the governance framework is considered adequate a couple of issues have been identified that need to be addressed to further enhance the Authority's governance arrangements and are outlined in section 7. (6.3)”.*

We have reviewed the Annual Governance Statement and based on the audit work carried out, along with our cumulative audit knowledge, we identified no matters indicating a significant weakness in arrangements.

### How the Authority approaches and carries out its annual budget setting process

Part 2 of the Fire Authority's Standing Orders is Financial Regulations, which refers to guidelines for financial planning and annual estimates. We note that the Financial Regulations were refreshed in March 2023, although our focus for this report is the arrangements in place during 2022/23 which was before the refresh took place.

A plan and timetable is agreed and followed, with the Finance Director ensuring annual preparation of the both documents in February/March each year. In December 2022 the Budget Planning Framework 2023-2024 was presented to the Authority setting out high level considerations in drafting the Revenue Budget 2023/2024 and longer term financial planning for the Authority. In December 2023 there was approval of the 2024/25 Framework.

We have confirmed the Authority has budgetary monitoring system in place and reports regularly the results. These reports include detailed descriptions of any variances to the Fire Authority. Based on our review of minutes and discussions with officers we have identified no matters indicating a significant weakness in arrangements. Overall, the Authority is aware of the financial pressure it faces and reports these pressures to appropriate Committees.

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria - continued

**How the Authority ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed**

Review of Authority minutes has confirmed there was regular reporting of the financial position during 2022/23 financial year. Reporting included detail of movements in the budget and forecast outturn between quarters. The reports detailed the in-year pressures as well as planned mitigations. As detailed in the previous section the Authority delivered an underspend against plan for 2022/23 financial year.

Our audit of the financial statements did not identify any matters to indicate a significant weakness in the accuracy of the financial information reported or the process for preparing the accounts.

**How the Authority ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.**

The Standing Orders set out how the Authority operates, how decisions are made and the procedures which are followed to ensure that decisions are efficient, transparent, and accountable to local people. Standing Orders are reviewed on an annual basis.

Those Charged With Governance (TCWG) are fully independent of the management of day to day operations, and the Terms of Reference of the committees are clearly set out in the Standing Orders which are available on the Authority's website. TCWG have relevant experience and knowledge to be able to perform their relevant functions. All members are provided training on their responsibilities and duties.

The Authority ensures that decision makers receive objective and rigorous analysis of a variety of options, indicating how intended outcomes would be achieved and highlighting associated risks, to secure best value regardless of the service delivery method. We have reviewed Authority minutes in the year and have not identified any evidence of a weakness in arrangements. The reports we reviewed support informed decision-making and were clear in the decision or recommendation Members were asked to make.

Our attendance at Governance committee meetings also confirms challenge on all levels of the Authority's activities. The Authority publishes sufficient information on its website to ensure transparency.

The Authority ensures that appropriate legal, financial, and other professional advice is always considered as part of the decision-making process and observes both specific requirements of legislation and general responsibility by Law.

## How the Authority monitors and ensures appropriate standards are maintained

A Corporate Governance Framework is in place, and the Standing Orders which includes a specific section relating to Codes of Conduct (part 5). These are published on the Authority website. This covers both members and all personnel code of conduct, as well as anti-bribery policy, and the policy relating to the register of gifts and interests. The transparency section of the Authority's website also provides detailed information on a number of areas. These documents are therefore readily available to members, officers and the public. We have identified no matters in relation to communication and enforcement neither of ethics and integrity nor in relation to leadership and governance from past audits or current risk assessments.

The Authority expects the highest standards of conduct from both its members and officers. The Governance Framework is reviewed and updated regularly by management. Management are committed to integrity and ethical behaviour and this is evident from our attendance of committee's and meetings with management. The Authority has a separate Anti-Fraud and Corruption Policy which sets out detailed policies and procedures to prevent and detect fraud.

There are appropriate arrangements to capture declarations of interest, gifts and hospitality.

We have not identified any failure to comply with the relevant Codes and corporate governance guidance.

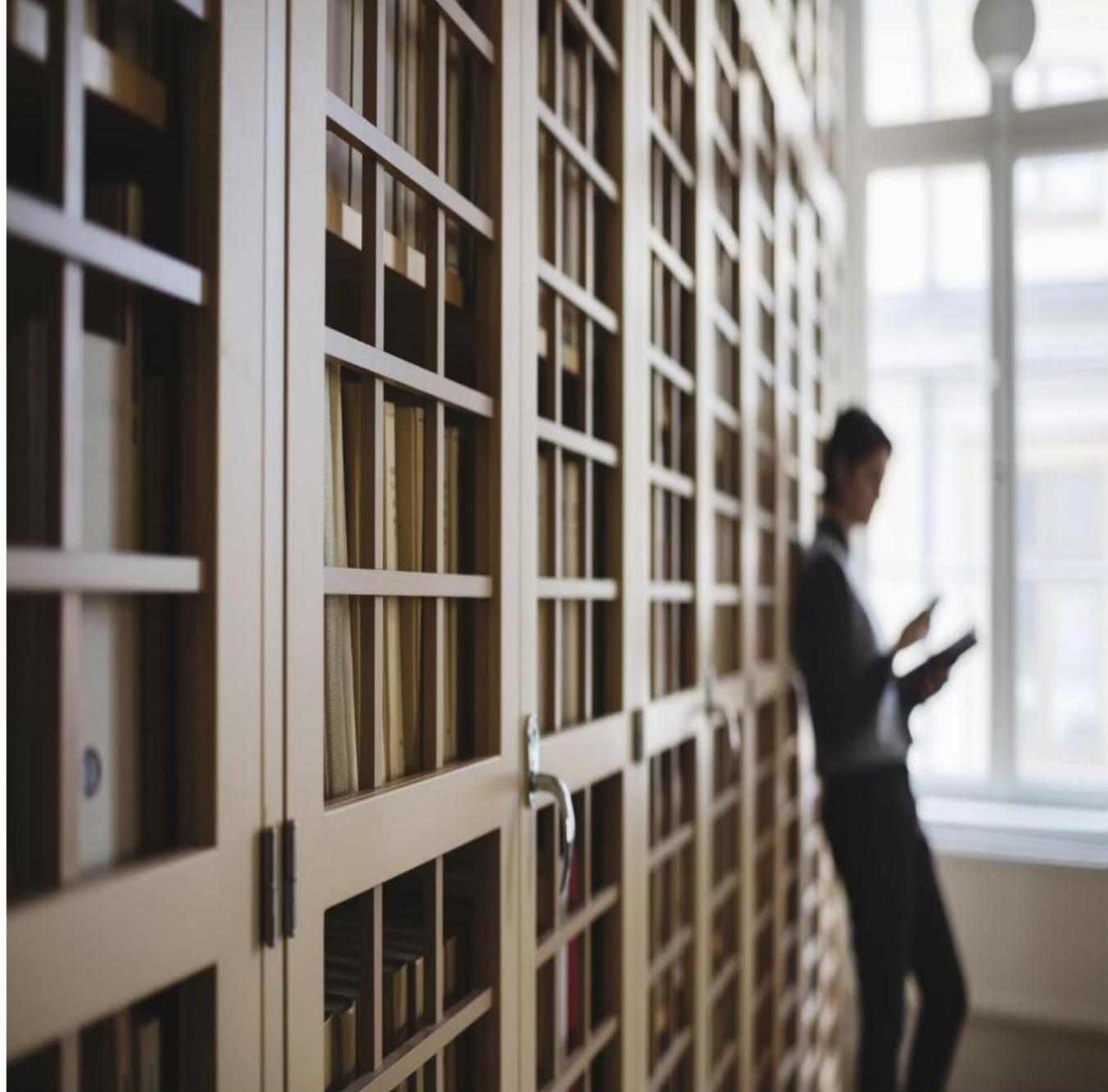
Based on the above considerations we are satisfied there is not a significant weakness in the Authority's arrangements in relation to governance.



### 3. Commentary on VFM arrangements

#### 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



# 3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

### How financial and performance information has been used to assess performance to identify areas for improvement

We confirmed through review of minutes and attendance of meeting that the Governance Committee received progress reports on management of corporate risks. This was intended to ensure independent scrutiny of the Authority's risk register. The Executive Leadership Team have overall responsibility for the management and monitoring of corporate risks.

Performance objectives of the Authority are set out in the TWFRS Strategy 2025. As detailed on the Authority website 'This Strategy document aims to modernise our approach to strategic planning, having previously presented large and detailed documents combining strategy, corporate plan, Integrated Risk Management Plan, Community Risk Management Plan, Community Risk Profile, Service Annual Operating Plan and performance reporting.'

As detailed in previous years the Authority has an Integrated Risk Management Plan (IRMP) covering the period 2021-24. The IRMP is intended to drive continuous improvement and innovation, aims to ensure that savings are achieved in a safe way, balancing risk and resources. The IRMP, including proposals, public consultation questionnaire and information, has been reported to the full Authority, as evidenced through our review of Authority minutes. The most recent update was to Authority in February 2023.

Our minutes review also showed that reports on financial and operational performance are considered by the Governance Committee and the Fire Authority. Performance information is available to members of the public via the website and can be drilled down to specific areas of the Authority.

### How the Authority evaluates the services it provides to assess performance and identify areas for improvement

The Authority evaluates services through reporting on both financial and operational performance via Executive Leadership Team (ELT) and into the relevant committees. The TWFRS Strategy 2025 sets out the key objectives against which performance is assessed.

The Authority is also subject to review by His Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS). HMICFRS carry out inspections of fire and rescues services to assess and report on three key areas: effectiveness, efficiency, and people. The most recent report is dated July 2022 covering the period 2021/22. The report is available on the HMICFRS website. This review considered the Service's effectiveness, efficiency and people. The Fire Authority received an overall of '**Good**' rating at this inspection.

The report also provides specific ratings in each of the three areas:

- **Effectiveness** - *How effective is the fire and rescue service at keeping people safe and secure from fire and other risks?*
- **Efficiency** – *How efficient is the fire and rescue service at keeping people safe and secure from fire and other risks?*
- **People** - *How well does the fire and rescue service look after its people?*

The Authority received a rating of '**Good**' in each of the three categories noted above. We confirmed with management that no further HMICFRS inspections had taken place since. We have considered the Report findings in previous years and while there are some areas for improvement identified within the report, and the continued financial challenges remain, there was nothing in the inspection report which highlights any significant weakness in arrangements.

### How the Authority ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

Review of performance management reports has not indicated a weakness in partnership arrangements. Partnerships are risk-assessed before being entered into and an established framework exists. The Authority uses various channels of communication and feedback mechanisms, including social media (Twitter, Facebook, Instagram and YouTube).

# 3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

### Where the Authority commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

The Authority has a Procurement Policy in place (available on the Authority website) which outlines the Authority's approach to achieving value for money through effective procurement of goods and services. The Policy per the website covers the period 2021-2024 and is subject to an annual review process undertaken by the Procurement Team in the Financial Services Department which will ensure the content remains appropriate for the Authority.

Procurement activities are expected to be in line with the service's standing orders and financial instructions, national legislation and European legislation as per Public Contract Regulations 2015 and procurement best practice. The Authority also note on their website that they have achieved CIPS Corporate Ethical Procurement and Supply status. Based on our attendance at meetings, discussions with officers and review of minutes we have not identified any evidence of non-compliance indicating a weakness in the Authority's arrangements.

Internal Audit also include procurement and contract management as a key risk area, per Internal Audit Annual Report 2022/23 which was presented to Governance Committee in June 2023. The overall opinion from the previous three years work in this area is noted as, being 'moderate'. Some weakness identified and recommendations regarding the PFI contract were identified. Management confirm they have acted on these recommendations. The matters raised are not considered evidence of a significant weakness in arrangements. In the same report the area of partnership working is given a 'substantial' assurance rating.

Based on the above considerations we are satisfied there is not a significant weakness in the Authority's arrangements in relation to improving economy, efficiency and effectiveness.

# 04

Section 04:

**Other reporting responsibilities and  
our fees**

## 4. Other reporting responsibilities and our fees

### Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

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

We have not exercised any of these statutory reporting powers.

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

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

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We are awaiting NAO confirmation that the Authority has not yet been selected as a sampled component to allow us to discharge this responsibility and issue our certificate closing the 2022/23 audit.

## 4. Other reporting responsibilities and our fees

### Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Governance Committee in September 2023. Having completed our work for the 2022/23 financial year, we can confirm that our fees are as follows:

Area of work	2021/22 fees	2022/23 fees
Planned fee in respect of our work under the Code of Audit Practice	£23,590	32,575
Recurring increases in the base audit fee arising from regulatory pressures (recurring and included in 22/23 scale fees)	£7,375	N/A
Additional fees in respect of new ISA540 requirements in relation to Accounting Estimates and related disclosures (recurring)	£1,900	1,900
Additional fees in respect of specific matters identified in 2022/23 as part of audit (non-recurring) – ISA 315 (R ) and updated pension figures	-	7,500
Additional fees in respect of pension reporting and triennial pensions issue (specific issue for 2021/22 only)	£3,000	N/A
Additional fees in respect of the new VFM approach (recurring)	£5,060	£5,060
<b>Total fees</b>	<b>£40,925</b>	<b>£47,035</b>

### Fees for other work

We confirm that we have not undertaken any non-audit services for the Authority in the year.



# Appendix

# A. Further information on our audit of the financial statements

## Significant risks and audit findings

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
<p><b>Management override of controls</b></p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>Accounting estimates impacting amounts included in the financial statements;</li> <li>Consideration of identified significant transactions outside the normal course of business; and</li> <li>Journals recorded in the general ledger selected based on fraud risk factors.</li> </ul> <p><b>Audit conclusion</b></p> <p>Our Audit work has provided the assurance we sought and identified no material issues.</p>
<p><b>Net Defined Benefit Asset Valuation</b></p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We addressed this risk through performing the following audit procedures:</p> <ul style="list-style-type: none"> <li>we challenged the reasonableness of the actuarial assumptions that underpin the relevant entries made in the financial statements, through the use of an expert commissioned by the National Audit Office;</li> <li>we critically evaluated the Authority's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements;</li> <li>we assessed the competency, objectivity and independence of the Actuaries, being AON Hewitt for the local Government Pension Scheme (LGPS) and the Government Actuarial Department (GAD) for the Firefighters' Pension Scheme (FFPS);</li> <li>we liaised with the auditors of the LGPS Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively; and</li> <li>we agreed data in the valuation reports for accounting purposes to the relevant accounting entries and disclosures in the Authority's financial statements.</li> </ul> <p>We also critically reviewed the 2022/23 net pensions asset disclosed by the Authority at 31<sup>st</sup> March 2023 for the Local Government Pension Scheme (LGPS).</p> <p><b>Audit conclusion</b></p> <p>The FFPS liability was amended to reflect updated inflationary figures provided by GAD. This has been reported as an adjusted misstatement.</p> <p>Our audit work provided the assurance we sought and did not identify any other material issues. There was one unadjusted misstatement which is detailed later in this report.</p>



# A. Further information on our audit of the financial statements

## Significant risks and audit findings (continued)

Risk	Our audit response and findings
<p><b>Valuation of property, plant and equipment</b></p> <p>The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Authority's holding of property, plant and equipment (PPE).</p> <p>The authority uses a valuation expert to provide information on valuations, but there remains a high degree of estimation uncertainty associated with the valuations of property, plant and equipment due to the significant judgements and number of variables involved.</p>	<p>We addressed this risk through the following audit procedures:</p> <ul style="list-style-type: none"> <li>• we critically assessed the Authority's arrangements for ensuring that property, plant and equipment valuations were reasonable;</li> <li>• we used market data, as part our challenge of the reasonableness of the valuations provided by the Authority's Valuer.</li> <li>• we considered the competence, skills and experience of the Valuer and the instructions issued to the Valuer; and</li> <li>• performed audit procedures on individual assets to ensure the basis of valuations was appropriate.</li> </ul> <p><b>Audit conclusion</b></p> <p>Our audit work provided the assurance we sought and did not identify any material issues. We reported some unadjusted misstatements and a control deficiency which are detailed later in this report.</p>

# A. Further information on our audit of the financial statements

This section outlines the misstatements identified during the course of our audit, above the trivial threshold for adjustment of £43,000.

The first table (A) outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and did not adjust the accounts for.

The second table (B) outlines the misstatements that were adjusted by management during the course of the audit. We also detail disclosure adjustments made by management.

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Depreciation Charge	104			
	Cr: PPE Land and Buildings				104
<p>The depreciation charge on plant &amp; equipment component of land &amp; buildings was, in our view, potentially understated. Where a structures asset life is over 22 years the depreciation in components is calculated using 22 years as the asset life. This is different to the asset life per valuers report which in our detailed testing of a sample of assets was 21 years. We have extrapolated the findings of our testing to give a non-material but non-trivial extrapolated error of £0.104m understatement of depreciation charged in 2022/23.</p>					
2	Dr: Reserves			130	
	Cr: PFI Reserves				130
<p>Our review of the fixed asset register (FAR) reconciliation to the Statement of Accounts (SoA) disclosure for PFI assets identified that per the SoA PFI Assets net book value of £39.558m however per the FAR the PFI assets net book value is £39.428m. Therefore, a difference of £0.130m.</p>					
	Dr: net liability arising from defined benefit obligation			211	
3	Cr: remeasurement of net defined benefit liability		211		
<p>The Local Government Pension Scheme (LGPS) Fund auditor has reported to us that during their work they identified a difference that meant pension fund assets could potentially be understated by an immaterial amount to the whole Pension Fund. Based on the approximate pension fund assets assigned to TWFRRA it would mean a potential understatement of LGPS assets by £0.211m.</p>					

## A. Further information on our audit of the financial statements

### (A) Unadjusted misstatements - continued

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
4	Dr: Property, plant and equipment			134	
	Cr: Cost of Services		90		
	Cr: Other comprehensive income and expenditure		44		
<p>Our testing of property valuations identified errors in relation to one of the asset valued in year, Barmston Training Centre. These were:</p> <ul style="list-style-type: none"> <li>• one element of asset had been demolished in year so asset was overvalued by £0.187m;</li> <li>• An error was made when transferring total valuation per detailed valuation schedule to the summary schedule (summary schedule had a figure which was £0.321m less than the detailed calculation)</li> </ul> <p>The cumulative impact of this was an understatement of the asset by £0.134m.</p>					
<b>Total unadjusted misstatements (current year)</b>		104	345	475	234

## A. Further information on our audit of the financial statements

### (A) Unadjusted misstatements – prior years

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Cost of Services	346			
	Cr: Unusable reserves (pension reserve)				346
	Being £0.346m of pension fund deficit contributions (LGPS) payment in advance for the three-year period 2017/18 to 2019/20 was incorrectly shown as part of pension reserve balance at 31 March 2022 when it should have been zero at 31 March 2020.				
<b>Total unadjusted misstatements (current and prior year)</b>		450	345	475	580

# A. Further information on our audit of the financial statements

## (B) Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: remeasurement of net defined benefit liability	14,060			
	Cr: net liability arising from defined benefit obligation				14,060
<p>An adjustment was necessary following receipt of revised actuary report from GAD in relation to Firefighters' Pension Scheme. The revised report included an allowance for known CPI increases between September 2022 and March 2023 which had not been recognised in the previous report.</p>					
	Dr: Other long Term Lease liabilities			140	
2	Cr: Reserves - Capital Adjustment Account				140
<p>Our work identified a difference between the PFI model and the PFI liability recognised on the Balance Sheet. Following a review management identified that a journal associated with the NEFRA PFI had not been posted to the general ledger. Consequently, the amount charged in year had not been offset against the PFI liability. There is also an impact on the comprehensive income and expenditure statement for this adjustment. Community Safety expenditure decreased by £0.06m and Fire Fighting and Rescue Operations expenditure decreased by £0.441m. Financing and Investment Income and Expenditure (interest payable) increased by £0.361m. Various disclosure notes were also amended to reflect this change.</p>					
<b>Total unadjusted misstatements</b>		14,060	0	140	14,200

# A. Further information on our audit of the financial statements

## Adjusted Disclosures

- **Note 4, Assumptions made about the Future and Major Sources of Estimation Uncertainty;** Note was updated to remove reference to material valuation uncertainty which was not accurate per the Valuers report for the year ended 31 March 2023.
- **Note 7, Expenditure Funding Analysis (EFA):** Amendment required to EFA figures for Community Safety Employee Expenses and Support Services. Amendments also required to Fire Fighting Employee Expenses and Support Services.
- **Movement in Reserves Statement:** Amendment required to 'Capital Grant Reserve' column 'increase/decrease' line to ensure prior year figures are consistent with prior year figures.
- **Note 12, Capital Commitments:** Our sample testing of capital commitments identified examples where no signed contract was available or evidence to support the value disclosed. The note was therefore updated to reflect actual contractual commitments. Additional narrative was added to better describe the contractual position of the new Hebburn fire station.
- **Note 20, Unusable Reserves;** pension reserve was updated to ensure consistency with entries elsewhere in the statement of accounts.
- **Note 23, Cash Flow Statement – Financing Activities:** Note was updated to ensure consistency with the cash flow statement.
- **Note 27, Grant income:** Note was updated to ensure consistency with the Balance Sheet.
- **Note 31, Defined benefits pension scheme:** The note was updated to reflect the revised GAD report.

Other minor presentational changes were made for spelling, grammar and consistency errors.

# A. Further information on our audit of the financial statements

## Significant deficiencies in internal control – Level 2 (medium priority)

As part of our audit of the financial statements, we obtained an understanding of internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate any significant deficiencies identified during the course of our work.

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out in the table alongside.

### Description of deficiency

When reviewing property valuations two errors were identified in the valuation of one asset. One error was due to the incorrect value being transferred to the summary schedule. It is the summary schedule which was used to update fixed asset register and therefore the financial statements. The other error related to one of the components of the asset having been demolished prior to year end but was still included in valuation. In our view these errors should have been identified during the review of the valuation work.

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### Potential effects

Property valuations are materially misstated.

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### Recommendation

All valuation certificates should be carefully reviewed to ensure all individual components are included. Valuation certificates, including summary schedules, should be checked for accuracy and internal consistency prior to them being input into the fixed asset register and financial statements.

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### Management response

Management have confirmed that valuation services are provided by Sunderland City Council. Management have requested that in future years Sunderland City Council's Property Services Department ensure all valuation certificates, including summary schedules, will be checked and counter-signed by a separate valuer going forward to ensure accuracy prior to them being input into the fixed asset register and financial statements provided to TWFRS. This action, which has been agreed by Sunderland City Council, will then help to improve the quality and accuracy of future valuations they provide to the Authority.

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## **Mazars**

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