

Audit Strategy Memorandum

Tyne & Wear Fire and Rescue Authority



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Our reports are prepared in the context of the Public Sector Audit Appointment Limited's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

Executive summary

Purpose of this report

The Audit Strategy Memorandum sets out our audit plan in respect of the audit of Tyne & Wear Fire and Rescue Authority ('the Authority') for the year ending 31 March 2017, and forms the basis for discussion at the Governance Committee meeting on 27 March 2017.

The plan sets out our proposed audit approach and is prepared to assist you in fulfilling your governance responsibilities. The responsibilities of those charged with governance are defined as overseeing the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process. We have determined that the Governance Committee is those charged with governance for the purpose of our audit.

Timing of our work	Our audit will be delivered in four main phases as outlined in page 7 of this report. We are planning to complete the audit by 31 July 2017, ahead of the statutory deadlines being formally brought forward from next year. The statutory deadline for the completion of our audit work in 2016/17 is 30 September 2017.
Financial Statements audit	<p>Significant risks</p> <p>We have identified the following areas on which we will carry out specific audit procedures to mitigate the risks of material misstatements in the Authority's financial statements:</p> <ul style="list-style-type: none">• management override of controls; and• valuation of the defined benefit pension scheme. <p>Materiality</p> <p>At the planning stage of the audit we have set materiality for the financial statements as a whole at £731k. In reporting the results of our work we do not report identified misstatements below a clearly trivial level. We have set this level at £22k.</p>
Value for Money conclusion	The work we carry out to form a conclusion on whether the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources is summarised on page 9. We have not identified any significant risks in respect of our VFM work.
Independence	We have considered any actual, potential or perceived threats to our independence on page 14. We have not identified any such threats at this stage of the audit.

Audit scope and approach

The scope of our work

The detailed scope of our work as your appointed auditor for 2016/17 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 ('the 2014 Act') and are summarised below.

Opinion on the financial statements

We are responsible for forming and expressing an opinion on the financial statements. Our audit is planned and performed so as to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Authority for the year.

Our audit does not relieve management or the Governance Committee, as those charged with governance, of their responsibilities.

Value for Money conclusion

We are required to conclude whether the Authority has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our Value for Money work in greater detail later in this report.

Whole of Government Accounts (WGA)

We report to the NAO on the consistency of the Authority's financial statements with its WGA submission.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and consider any objection made to the accounts by an elector. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities and related bodies in the United Kingdom.

Our response to the risk of fraud

International Standards on Auditing (ISAs) require us to obtain reasonable assurance that the financial statements are free from material fraud and/or error. There are a range of ways in which fraud may arise in the context of your financial statements and we formally consider the risk of fraud as part of our planning work and design appropriate procedures to mitigate risks identified. We maintain an appropriate level of professional scepticism throughout the audit and are mindful that a material misstatement due to fraud is possible, however, our audit should not be relied upon to identify all such misstatements.

Management and the Governance Committee, as those charged with governance also have responsibilities in respect of fraud. They are responsible for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with laws and regulations.

Our enquiries will focus on:

- what role the Governance Committee has in relation to fraud and how it is kept informed of fraud related matters by management;
- what anti-fraud measures you have in place and how your policies and procedures are monitored; and
- whether you are aware of any actual, alleged or suspected fraud.

We will formally write to you, in your role as those charged with governance, making the enquiries above, during the audit.

Our approach to obtaining assurance over service organisations

There are material entries in your financial statements where the Authority is dependent on an external organisation. We call these entities service organisations. In Appendix A, we outline our approach to understanding the services received from the organisation and the approach we intend to take to obtain sufficient appropriate evidence over items of account that derive from them.

Our use of experts and other auditors

Management and auditor experts

There are material entries in your financial statements which are provided by management experts. For some of these entries, we will use our own expert to provide us with the assurance we require in relation to the work of your expert.

In addition to setting out information in respect of service organisations, Appendix A also summarises management's experts and our planned audit approach to obtaining assurance over their work.

Other auditors

In previous years, we have sought to rely on assurances provided by the auditor of the Tyne & Wear Pension Fund (Ernst & Young) in relation to the Authority's pension disclosures. Going forward we will be seeking to reduce or eliminate the need for such assurances, by performing additional procedures as part of our audit. However, we have identified that this year we will need to seek some assurances in relation to the data used in the recent triennial revaluation of the fund.

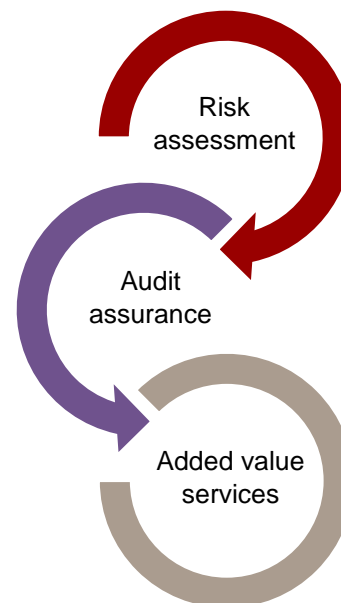
Internal audit

Where appropriate, we will seek to rely on work performed by internal audit where it provides us with the required assurance. We will meet with internal audit to discuss their work programme and findings, and factor this in when determining the most efficient testing strategy.

Where we intend to rely on the work of internal audit, we will evaluate their work and perform our own audit procedures to determine its adequacy for our audit.

Audit efficiency and our use of IT

Innovative and integrated use of IT drives the efficiency and effectiveness of our audit. Your audit team uses the latest IT-based audit solutions and is supported by a team of IT auditors each of who have extensive knowledge of the public sector and providing assurance and advisory services across the public sector.



We know that all organisations are different and face different risks. Our audit platform is modern and flexible and allows us to tailor our audit approach to the specific risks relevant to the Authority, while ensuring compliance with underlying auditing standards.

We focus on the risks to your business continuity and those that give rise to a risk of material misstatement in the financial statements. Your audit team has access to a full suite of data analytics tools which allow them to determine the most effective and efficient testing strategy using IT-audit techniques where appropriate.

Significant risks and key judgements

Identified significant risks

As part of our planning procedures we have considered whether there are risks of material misstatement in the Authority's financial statements that require special audit consideration. Although we report identified significant risks at the planning stage of the audit, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to mitigate these risks. Where we identify any significant risks in addition to those set out below, we will report these to the Governance Committee as part of our Audit Completion Report.

Significant risk	How we will mitigate the risk
<p>Management override of control</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 overrides 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 will address this risk by performing the following audit work:</p> <ul style="list-style-type: none"> • consideration and review of accounting estimates impacting on amounts included in the financial statements; • consideration and review of any unusual or significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
<p>Pension Entries</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 include estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we will:</p> <ul style="list-style-type: none"> • evaluate the management controls in place to assess the reasonableness of the figures provided by each Actuary (Aon Hewitt and GAD); and • consider the reasonableness of each Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office.

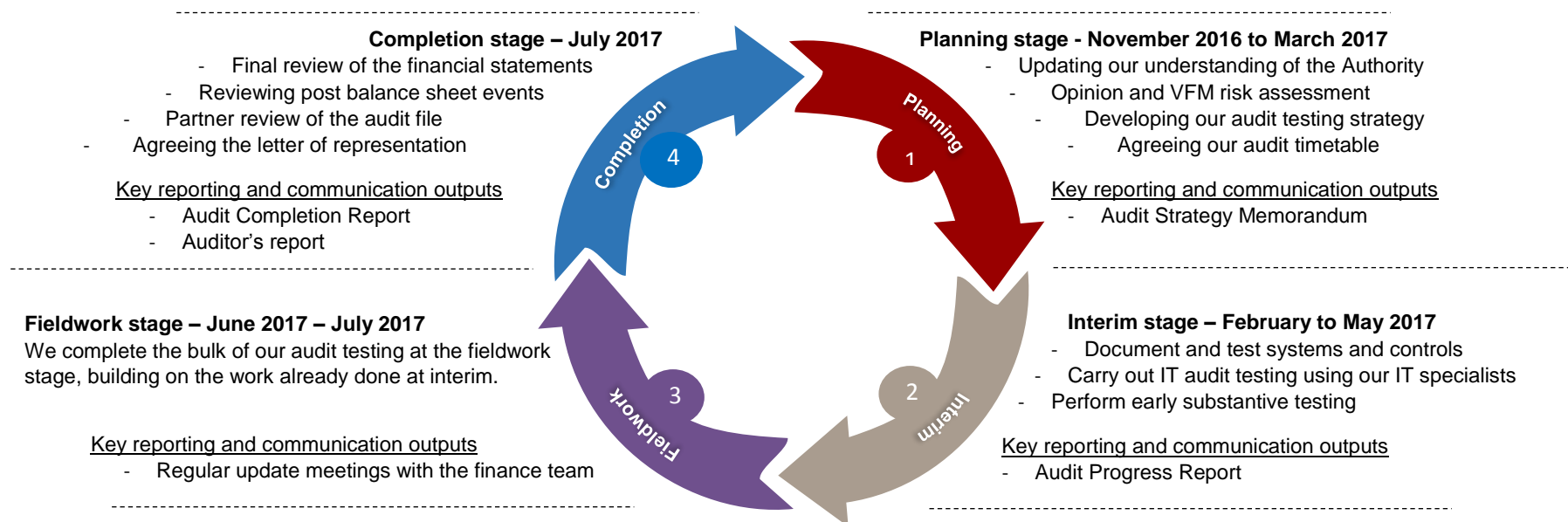
Timetable and communication

Our approach to communication

International Standards on Auditing require us to communicate a number of matters with you at various points during the audit cycle. Later in this section we outline exactly how we will communicate with the Governance Committee as those charged with governance. As well as being an integral part of our responsibilities under auditing standards, we see two-way communication with the Governance Committee and officers as being critical to building a robust knowledge of your business, the risks and challenges you face and the plans you have in place to meet those challenges.

Audit timetable

The diagram below outlines the main phases of your audit, when each will be carried out and the outputs that you will receive at each stage. This is underpinned by a 'no surprises' approach to communication that ensures management and the Governance Committee are kept aware of significant issues on a timely basis. We intend to issue our Audit Strategy Memorandum in March 2017, our Audit Completion Report in July 2017 and our Annual Audit Letter in September 2017.



Key communication points

ISA 260 'Communication with those charged with governance' and ISA 265 'Communicating deficiencies in internal control to those charged with governance and management', require us to communicate a number of matters to you. These matters are set out below.

Matter to be communicated	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Confirmation of our independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Conclusions on the significant audit risks and areas of management judgement		✓
Summary of unadjusted misstatements		✓
Management representation letter		✓
Our proposed audit report		✓

In addition to the matters outlined above which we are required to communicate under auditing standards, we also communicate regularly with the Governance Committee through our Audit Progress Reports, which are presented at each meeting. We also report to the Authority on an annual basis to summarise our work and main conclusions through our Annual Audit Letter.

Value for Money Conclusion

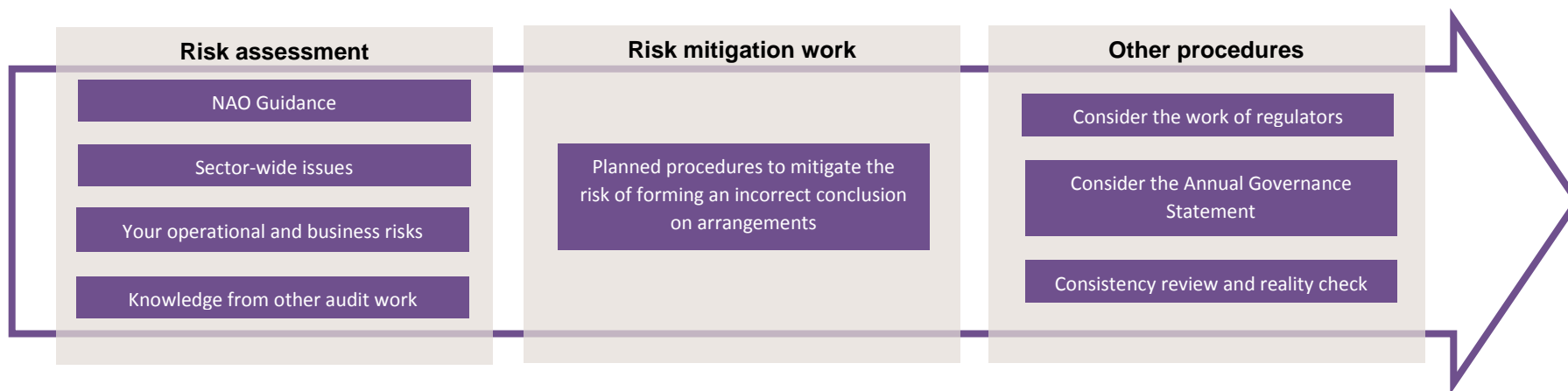
Our approach to Value for Money work

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

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

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

A summary of the work we undertake to reach our conclusion is provided below.



Significant Value for Money risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a risk to the VFM conclusion exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Authority being inadequate. As outlined above, we draw on our deep understanding of the Authority and its partners, the local and national economy and wider knowledge of the public sector.

For 2016/17, we have not identified any significant risks for our VFM conclusion.

Fees

Fees for work as the Authority's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by Public Sector Audit Appointments Ltd (PSAA) as communicated to you in our fee letter on 11 April 2016.

Area of work	2016/17 proposed fee	2015/16 final fee
Code audit work	£30,636	£30,636

Fees for non-PSAA work

We do not expect to carry out any non-audit work for the Authority. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in Appendix B.

Our team



Partner name – Mark Kirkham

Email: Mark.Kirkham@Mazars.co.uk

Phone: +44 (0)113 387 8850

Bio: Mark has been a partner at Mazars since 2015 and prior to that he had been an engagement lead since 2002. Mark has extensive experience in a number of sectors, including the fire and rescue sector.



Manager name – Gavin Barker

Email: Gavin.Barker@Mazars.co.uk

Phone: +44 (0)191 383 6300

Bio: Gavin is a senior manager with 28 years public sector audit experience. He transferred to Mazars from the Audit Commission in 2012 and has been involved with the Tyne & Wear Fire and Rescue Authority audit for over 4 years. His other clients include Sunderland City Council and Selby District Council. On a voluntary basis, Gavin is also Treasurer and trustee of a Newcastle-based charity that supports people with carer responsibilities.



Team-leader name – Ian Rutter

Email: Ian.Rutter@Mazars.co.uk

Phone: +44 (0)191 561 1919

Bio: Ian is an Assistant Manager with over 16 years of external audit experience. Ian also joined Mazars in 2012 and works with Gavin on a number of the Sunderland-based audits undertaken by the firm.

Appendix A – Service organisations and experts

Service organisations

As we outline in the main body of this report, the Authority makes use of service organisations. ISA 402 defines a service organisation as one that provides services to another entity that form part of that entity's information systems relevant to financial reporting. The table below sets out the service organisations that we have identified as part of our planning work together with a description of how we intend to obtain assurance over the entries in your financial statements that are derived from them.

Service organisation	Services provided	Planned audit approach
Sunderland City Council	Financial services, provision of key financial systems and IT services. Systems provided for the Authority are: <ul style="list-style-type: none">• general ledger;• payroll;• accounts payable;• accounts receivable;• cash receipting; and• treasury management.	Although some officers are employed by Sunderland City Council, and some key systems are maintained by the Council, we have sufficient access to officers and systems, along with all of the relevant financial information we need, to conduct our audit of Tyne & Wear Fire and Rescue Authority.

Experts

The Authority also uses experts to provide entries in its financial statements. The table below outlines the areas of the financial statements where we expect the Authority to use experts and an explanation of the approach we will take to obtaining assurance over those entries.

Financial statement area	Management's expert	Planned audit approach
Property, Plant and Equipment	An external valuer provided by Sunderland City Council	We will assess the reasonableness and consistency of the valuer's report, including comparison with our own (via NAO) appointed expert - Gerald Eve.

Financial statement area	Management's expert	Planned audit approach
<p>Disclosures relating to the Tyne & Wear Pension Fund, which is a Local Government Pension Scheme (LGPS)</p> <p>Disclosures relating to the firefighters' pension scheme, an unfunded pension scheme, where liabilities are met by Government, but accounted for through the Authority's accounts</p>	<p>Aon Hewitt (actuary) – Tyne & Wear Pension Fund</p> <p>Government Actuaries Department (GAD) for the firefighters' pension scheme</p>	<p>We will evaluate the results and information provided by each actuary and compare this with our own (via NAO) appointed expert – PWC, who carry out a specific review of the actuarial assumptions used by the main actuaries appointed to local government pension schemes, including Aon Hewitt, and also assess the assumptions used by GAD. If needed, we will consult Mazars own in-house actuarial specialists for further advice.</p>

Appendix B – Independence

We are required by the Financial Reporting Council to confirm to you at least annually in writing, that we comply with the Auditing Practices Board's Ethical Standards. In addition we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you, and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement, there are no relationships between us, and any of our related or subsidiary entities, and you, and your related entities, creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team who are required to rotate off a client after a set number of years; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We wish to confirm that in our professional judgement, as at the date of this document, we are independent and comply with UK regulatory and professional requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with either Mark Kirkham or Gavin Barker.

Prior to the provision of any non-audit services, Mark Kirkham will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. No threats to our independence have been identified.

Appendix C - Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit.

Whilst planning our audit, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We discuss with management any significant misstatements or anomalies that we identify during the course of the audit and we report in our Audit Completion Report all unadjusted misstatements we have identified other than those which are clearly trivial, and obtain written representation that explains why these remain unadjusted.

Appendix D – Our added value

Our primary responsibilities as the Authority's external auditor are outlined in the main body of this report. As your external auditor we are ideally placed to provide added value in delivering those responsibilities and the diagram below provides a summary of how we do this.

