External Audit ISA260 Report 2017/18

South Yorkshire Fire and Rescue Authority

—

30 July 2018

Summary for Audit Committee

This document summarises the key findings in relation to our 2017-18 external audit at South Yorkshire Fire and Rescue Authority ('the Authority').

This report covers both our on-site work which was completed in June and July 2018 on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.

Organisational and IT control environment	We did not identify any issues in relation to the organisation and IT control environment.
Controls over key financial systems	We did not identify any issues in relation to controls over the majority of key financial systems, however we have raised one recommendation in relation to undertaking a high level valuation of PPE each year.
Accounts production	We received the draft accounts on 31 May 2018, which is the statutory deadline for draft account production. Working papers were provided in a timely manner and were of a similar standard to prior years.
Financial statements	**Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 31 July 2018.** £ Based upon our initial assessment of risks to the financial statements (as reported to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 11): — **Valuation of PPE** – Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We have considered the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated. We identified one audit adjustment in relation to this work. — **Pensions Liabilities** – The valuation of the Authority's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We have reviewed the processes in place to ensure accuracy of data provided to the Actuary and considered the assumptions used in determining the valuation. No issues were identified as a result of our work; and — **Faster Close** – The timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). We worked with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work. We did not identify any issues caused by the faster close process. We have identified two audit adjustments, one with a value of £1.1m in relation to the accounting treatment for the early payment of the pension deficit, and one with a value of £4.4m which relates to applying revaluation indices to non-revalued assets. See Appendix 3 for details. We identified one unadjusted difference, with a value of £226,000, in relation to pension asset valuation. See Appendix 3 for details (continued over page)

Summary for Audit Committee (cont.)

Financial Statements (cont.)	Based on our work, we have raised one recommendation. Details of our recommendations can be found in Appendix 1. We are now in the completion stage of the audit. We anticipate issuing our audit opinion by 31 July 2018. We will issue our completion certificate in advance of the WGA deadline of 31 August 2018.
Value for money arrangements	We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. **We therefore anticipate issuing an unqualified value for money opinion** We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risks: — **Procurement Practices** – The Authority continues to implement the findings of the 2015/16 internal audit report into procurement practices, with 2017/18 being the first year when many of the changes made will have been in place for the whole year. From a review of the larger procurements undertaken in year, we are satisfied that appropriate procedures and processes have been followed. — See further details on page 18.
Exercising of audit powers	We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about. We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.
Acknowledgements	We would like to take this opportunity to thank officers and Members for their continuing help.

Section one

Control Environment

Organisational and IT control environment

We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology ("IT") to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data and system changes.

Key findings

We consider that your organisational and IT controls are effective overall.

Aspect of controls	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3
IT controls:	
Access to systems and data	3
System changes and maintenance	3

Key

1	Significant gaps in the control environment.
2	Deficiencies in respect of individual controls
3	Generally sound control environment.

Controls over key financial systems

The controls over all of the key financial systems are sound.

Work completed

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

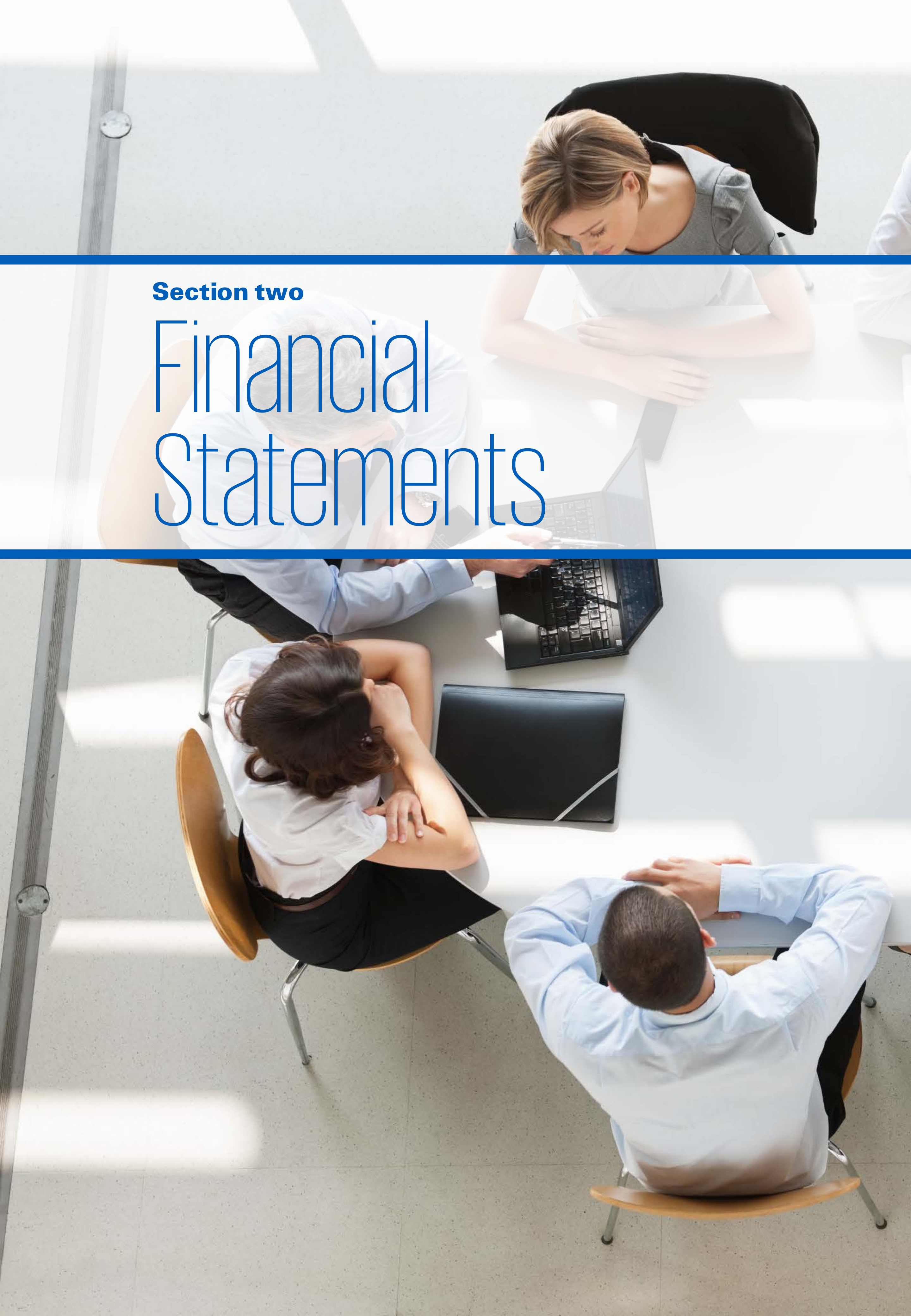
Based on our work we have determined that the controls over all of the key financial systems are sound.

Aspect of controls	Assessment
Property, Plant and Equipment	2
Cash and Cash Equivalents	3
Pension Assets and Liabilities	3
Non pay expenditure	3
Payroll	3

Key	
1	Significant gaps in the control environment
2	Deficiencies in respect of individual controls
3	Generally sound control environment

Section two

Financial Statements



Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

The Authority's overall process for the preparation of the financial statements is adequate.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2016/17*.

Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerge.

We consider that the overall process for the preparation of your financial statements is good.

We also consider the Authority's accounting practices appropriate.

Going concern

The financial statements of the Authority have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority to continue as a going concern.

Implementation of recommendations

In our 2016/17 ISA260, we raised one new recommendation and carried forward one recommendation from 2015/16. These are detailed in Appendix 2. The Authority has implemented all of the recommendations relating to the financial statements in line with the timescales of the action plan.

Completeness of draft accounts

We received a complete set of draft accounts on 31 May 2018, which is the statutory deadline.

Quality of supporting working papers

We issued our Accounts Audit Protocol to Phil Danforth on 9 March 2018. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority to provide audit evidence in line with our expectations. We worked with management to ensure that working paper requirements are understood and aligned to our expectations.

Although not all working papers were available on day one of the audit, they were provided in sufficient time for us to complete the work.

The working papers were of similar quality to those provided in previous years.

Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was achieved by Officers, including those who are not part of the finance team. As a result of this, all of our audit work were completed within the timescales expected with no outstanding queries.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements by 31 July 2018. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE ('Delivering Good Governance in Local Government') published in April 2016.

For the year ending 31 March 2018, the Authority has reported a deficit of £17.7m (including actuarial losses on pension assets/liabilities). The impact on the General Fund has been a decrease of £322k.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

02

Fraudulent revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2017-18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements.

Specific audit areas

Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:	**Valuation of PPE** 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. Given the number of assumptions that go into the valuation process and the values involved, relatively small changes in an assumption could have a material impact on the financial statements. There is also a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end.
Our assessment and work undertaken:	We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach. In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time. In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate. We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions). As a result of this work we determined that the assumptions used in the valuation of PPE are reasonable, and the fixed asset values are not materially misstated. We did however request one audit adjustment be made to apply indices to those assets not revalued in year to ensure they appropriately reflected the current value of the assets (Appendix 1 and Appendix 3) We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 12.

Specific audit areas (cont.)

Significant Audit Risks (cont.)

Risk:	**Pension Assets and Liabilities** The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of South Yorkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.
Our assessment and work undertaken:	As part of our work we reviewed the controls that the Authority has in place over the information sent directly to the Scheme Actuary. We also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This included consideration of the process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Mercer. We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Mercer. In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements. In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. We obtained assurance from the Pension Fund auditors (KPMG) over the overall value of fund assets. As a result of this work we determined that there were no material errors in relation to the pension asset and liabilities figures shown within the financial statements. We have identified one unadjusted audit difference in relation to the pension asset (Appendix 3) We have set out our view of the assumptions used in valuing pension assets and liabilities at page 12.

Specific audit areas (cont.)

Significant Audit Risks (cont.)

Risk:

Faster Close

In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

These changes represented a significant change to the timetable that the Authority had previously worked to. The time available to produce draft accounts was reduced by one month and the overall time available for completion of both accounts production and audit was two months shorter than in prior years.

In order to meet the revised deadlines, the Authority needed to make greater use of accounting estimates, and there were a number of logistical challenges that needed to be managed, including:

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries, subsidiaries and subsidiary auditors) are aware of the revised deadlines and to make arrangements to provide the output of their work in accordance with this;
- Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;
- Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

Our assessment and work undertaken:

We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.

We received draft financial statements on the statutory deadline of 31 May 2018. The quality of this draft was consistent that of prior years.

As a result of this work we determined that the finance team had set out a clear timetable which enabled them to meet the statutory deadline for producing draft accounts, and providing us with working papers in order to complete our audit. The level of quality was sufficient to indicate that appropriate quality control methods were still in place, despite the need produce the accounts quicker than in previous years.

Judgements

We have considered the level of prudence within key judgements in your 2017-18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	**Audit Difference**
	Acceptable Range					

Subjective area	2017-18	2016-17	Commentary
Property Plant & Equipment	2	3	The Authority holds £54.6m (16/17 - £54.2m) of PPE. The Authority has utilised an external valuation expert to provide valuation estimates over a rolling 5 year period. Valuations are undertaken by Kier, as external valuers. Our audit work identified that assets not valued in year were undervalued and an audit adjustment has been made based on indicative indices (see Appendix 3). Given our knowledge of the movement of indices over time we anticipate that the resulting value remains cautious.
Useable reserves	2	2	The Authority continues to hold a healthy useable reserves balance. There should be sufficient headroom available within reserves to meet some unforeseen demands or contribute partially towards medium term financial pressures.
Valuation of Pension Assets and Liabilities	3	3	The Authority continues to use Mercer to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. The actual assumptions adopted by the actuary fell within our expected ranges as set our below:

Assumption	Actuary Value	KPMG Value	Assessment
Discount rate	2.60%	2.50%	4
Pension Increase Rate	2.20%	2.16%	3
Salary Increases	1.25% until 31 March 2020, CPI plus 1.25% there after	CPI plus 0% to 2.0%	3
Life expectancy Males currently aged 45 / 65 Females currently aged 45 / 65	 25.2 / 23.0 28.1 / 25.8	 23.5 / 22.1 25.4 / 23.9	2

We have assessed the level of actual lump sum and benefit payments made to retirees of the Council and their beneficiaries and transfers in/out of the Fund in the year ended 31 March 2018 when compared to equivalent figures provided by the Pension Fund audit team. We noted that there were some immaterial differences in these figures due to estimates being updated by the actuary during and following the pension fund audit process. We are satisfied that the estimates used to reach the figures disclosed in the Council's accounts remain materially correct and based upon reasonable assumptions and would have no impact on the reader's interpretation of the accounts

Proposed opinion and audit differences

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements following approval of the Statement of Accounts by the Audit Committee on 23 July 2018.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4) for this year's audit was set at £1 million. Audit differences below £50k are not considered significant.

Our audit identified a total of two significant audit differences, which we set out in Appendix 3. It is our understanding that these will be adjusted in the final version of the financial statements.

The adjustments identified were as follows:

- One adjustment in relation to the presentation of the early payment of the pension deficit in order to comply with accounting requirements that this is not a prepayment.
- One adjustment in relation to the estimated change in value of assets which had not been revalued in year.

The audit adjustments have led to a £0.957m decrease in expenditure.

We identified one unadjusted audit difference in relation to the valuation of pension assets, due to the use of estimates in the actuary's valuation.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code').

Annual governance statement

We have reviewed the Authority's 2017-18 Annual Governance Statement and confirmed that:

— It complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and

— It is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

We have made a number of comments in respect of its format and content which the Authority has agreed to amend where significant.

Narrative report

We have reviewed the Authority's 2017-18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of South Yorkshire Fire and Rescue Authority for the year ended 31 March 2018, we confirm that there were no relationships between KPMG LLP and South Yorkshire Fire and Rescue Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Treasurer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

There are no issues over which we are seeking specific management representations.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

— Significant difficulties encountered during the audit;

— Significant matters arising from the audit that were discussed, or subject to correspondence with management;

— Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

— Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017-18 financial statements.

Section three

Value for Money Arrangements

Specific value for money risk areas

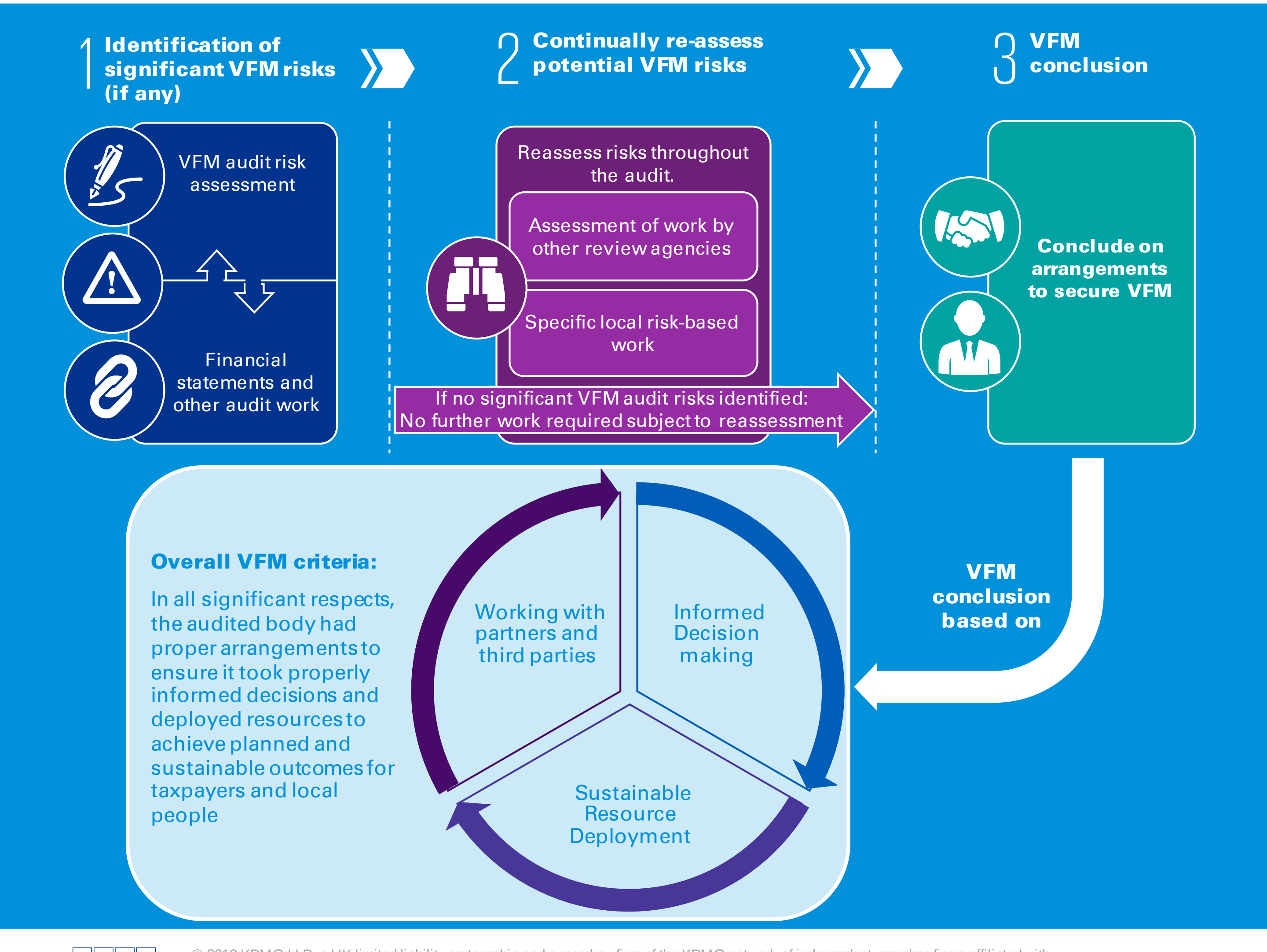
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



Specific value for money risk areas (cont.)

The table below summarises our assessment of the individual VFM risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

Applicability of VFM Risks to VFM sub-criteria			
VFM Risk	**Informed decision making**	**Sustainable resource deployment**	**Working with partner and third parties**
Procurement Practices	✔	✔	✔

In consideration of the above, we have concluded that in 2017-18, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.

Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017-18* we have identified one risk requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

Risk:

Delivery of budgets

The Authority received a qualified VFM conclusion in 2014/15, 2015/16 and 2016/17 as a result of a failure in governance arrangements in relation to proper procurement practices. In 2015/16, Internal Audit undertook reviews into the Contracts Register and Purchase to Pay, and both these reviews identified procurement practices had not been followed. The Authority actioned the majority of recommendations raised during 2016/17. During 2017/18, the remaining actions have been embedding in order to improve the procurement function even further. As such, this continues to be a VFM risk for 2017/18.

Our assessment and work undertaken:

We held discussions with key officers to understand progress in implementing the recommendations raised. We carried out specific work to confirm the procurement process now operates as anticipated.

We found that the Authority has progressed significantly in ensuring they have a robust, fit for purpose procurement function. There is a clear drive within the Authority to continue to improve through sufficient and capable resources and ensuring best practice is maintained. As part of our work we reviewed five large value procurements which were undertaken throughout the year. In all five cases, the procedures followed were in line with good practice, and there was evidence of appropriate scrutiny and challenge.

As such, we will be issuing an unqualified VFM conclusion in 2017/18.

Appendices

Appendix 1:

Key issues and recommendations

Our audit work on the Authority's 2017-18 financial statements has identified a number of issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority Rating for Recommendations

1	**Priority One:** Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk. Recommendations Raised: 0	2	**Priority Two:** Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system. Recommendations Raised: 0	3	**Priority Three:** Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them. Recommendations Raised: 1

No.	Risk	Issue & Recommendation	Management Response
1	3	**High level review of valuation of PPE** SYFRA currently revalue their assets on a rolling five year basis in line with the CIPFA code. Within the Guidance Document to the Code, it also states ""revaluations must be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the end of the reporting period"". Although there is no requirement to undertake revaluations on an annual basis for all assets, the Code is clear that a Local Authority must satisfy itself that the carrying value of an asset does not differ materially from its current value. At present no high level annual review is undertaken across the whole asset base to confirm there are unlikely to be material changes in the value of assets that have not been revalued in year. ***Risk*** The value of PPE could be materially misstated. ***Recommendation*** An annual high level review should be undertaken to confirm that there are unlikely to be any material changes in the value on assets that have not been revalued in year. This should be proportionate to the size of the Authority.	The Authority will review current processes around its valuation policy, including implementation of an annual, high level review across the asset base. Furthermore, arrangements will be made in the 2018/19 financial year for formally valuing those significant assets that weren't revalued during 2017/18. ***Responsible Officer*** Treasurer ***Implementation Deadline*** March 2019

Appendix 2:

Follow-up of prior year recommendations

The Authority has implemented all of the recommendations raised through our previous audit work.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2016/17* and outstanding recommendations from previous audit years and re-iterates any recommendations still outstanding.

Number of recommendations that were	
Included in the original report	2
Implemented in year or superseded	2
Outstanding at the time of our interim audit	0

No.	Risk	Issue & Recommendation	Management Response (September 2017)	Status as at July 2018
1	3	***Payroll password controls*** During our review of the IT controls of the payroll system (ResourceLink), we identified that it was possible to manually change a password without following all of the required parameters. The password controls did however remain strong. ***Recommendation*** The password parameter settings should be updated to be in-line with the password policy.	Accepted We will review the password parameter settings and confirm they are in-line with the password policy. ***Responsible Officer*** Director of Support Services ***Implementation Deadline*** 31 December 2017	Through our review of IT controls in 2017/18, we confirmed that passwords now need to follow the password parameters.
2	1	***End to end review of procurement (carried forward from 2015/16)*** To improve its value for money arrangement the Authority needs to satisfy itself that the procurement related issues raised in the Wirral cladding and roofing report are not systematic throughout the service ***Recommendation*** The service, with support from internal audit should carry out an end to end review of procurement processes and activity at the earliest opportunity.	***Management original response (September 2017)*** Restructuring, recruitment and development has been and will continue to be undertaken to ensure that the service has adequate experience and expertise in relation to procurement. Statutory standing orders will be reviewed, in conjunction with internal audit, to facilitate a revised end to end procurement process and to ensure that they reflect current legal requirements and are fit for purpose. Continued overleaf…	From our VFM work in 2017/18, we are satisfied that an end to end review of procurement has been undertaken, and all actions arising from this have been appropriately implemented.

Appendix 2:

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
2 (cont.)	1	***End to end review of procurement (cont.)***	Strategic re-alignment will ensure appropriate focus upon governance issues going forward. ***Responsible Officer*** Director of Finance and Resources ***Original Implementation Deadline*** April 2017 ***KPMG's September 2017 Assessment*** Partially implemented There has been very significant progress during 2016/17 and we have seen progress ranging from recruitment, support interventions, process document development and independent review of procurement activity. Audit committee have been kept up to date with progress throughout the year. We have retained the recommendation as we and management recognise that there are still some actions to be undertaken to get back to a "business as usual" procurement process.	

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee).

We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2017-18 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Unadjusted audit differences – Authority

We identified one unadjusted audit difference with a value of £226k in relation to the return on pension assets. This variance is due to the actuary having to use estimates to provide their valuation in time for the draft accounts, but the actual figures being available by the time we complete our audit.

Adjusted audit differences – Authority

The following table sets out the significant audit differences identified by our audit of South Yorkshire Fire and Rescue Authority's financial statements for the year ended 31 March 2018. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Table 1: Adjusted audit differences – Authority (£'000)

No.	Financial Statement Caption	Income and expenditure statement	Assets	Liabilities	Reserves	Basis of audit difference
1	DR Pension Reserve				1,110	The payment made to SYPA for the deficit funding for the three years from 2017-20 was recognised as a part prepayment. This is not correct as the Pension Fund would not pay this back to the authority and therefore does not meet the definition of a prepayment.
	CR Short Term Debtors		(1,110)			
	DR Fire Fighting and Operations Expenditure	1,110				
	CR MIRS				(1,110)	
2	DR Fixed Assets		4,446			Estimated impact of applying revaluation indices to non-valued assets. The increase in fixed assets is the net position of increasing the gross book value by £2.5m, writing out £2.3m depreciation, and then accounting for and additional £0.4m depreciation in year
	CR Capital Adjustment Account				(2,131)	
	CR Revaluation Reserve				(2,315)	
	DR MIRS				2,067	
	CR Fire Fighting & Operations Expenditure	(2,067)				
		(957)	**3,336**	**0**	**(2,379)**	**Total impact of adjustments**

Appendix 3:

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee).

We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Presentational adjustments

We identified a number of presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code').

We identified the following presentational adjustments over our posting threshold of £50,000:

- Note 14: Government Grants did not match the CIES by £130,000. This was due to a formula error. It had no impact on the prime financial statements.
- Note 9: Expenditure and Income Analysed by Nature did not correctly show the gain on disposal of fixed assets, and was misstated by £82,000. This was due to a formula error. It had no impact on the prime financial statements.

Appendix 4:

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2017-18*, presented to you in February 2018.

Materiality for the Authority's accounts was set at £1 million which equates to around 1.8 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £50k for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Appendix 5:

Required communications with the Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 December 2018.
Adjusted audit differences	We have identified two adjusted audit differences. These reduced expenditure by £0.957m and increase assets by £3.3m (Appendix 3)
Unadjusted audit differences	We identified one unadjusted audit difference in relation to pension assets with a total value of £226k (Appendix 3)
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, including confirmation that there were no significant deficiencies identified, in Section one of this report. We identified one audit recommendation in relation to undertaking an annual high level review of the valuation of fixed assets.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence. See Appendix 6 for further details.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 12.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF SOUTH YORKSHIRE FIRE AND RESCUE AUTHORITY

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

— General procedures to safeguard independence and objectivity;

— Independence and objectivity considerations relating to the provision of non-audit services; and

— Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

— Instilling professional values

— Communications

— Internal accountability

— Risk management

— Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority for significant professional services provided by us during the reporting period in Appendix 7, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	34,445	38,317
Total audit services	**34,445**	**38,317**
Total Non Audit Services	-	-

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year.

No non-audit services have been provided during the period of audit for the year-ended 31 March 2018.

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

Appendix 7:

Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £34,445 plus VAT (£34,445 + additional fee of £3,872 in 2016/17). The prior year included an additional fee in relation to reviewing the continuing review of procurement and the governance of TOIL to senior officers.

In both 2017/18 and 2016/17) we did not perform any non-audit work for the Authority.

All fees quoted are exclusive of VAT.

The key contacts in relation to our audit are:

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