Agenda item No **11.1**

KPMG

External Audit ISA260 Report 2017/18

Humberside Fire Authority

—

July 2018

Summary for Audit Committee

This document summarises the key findings in relation to our 2017-18 external audit at Humberside Fire Authority

This report covers both our on-site work which was completed in March and June 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	There are 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.
Controls over key financial systems	The controls over the majority of the key financial systems are deemed to be sound and operating effectively. We identified and tested those controls that address key risks within these systems and assessed the extent to which the risk is mitigated through control performance.
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 Pages 10 -11 — **Valuation of PPE -** 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 individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year-end fair value. — **Pensions Liabilities -** There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligations are not reasonable. This could have a material impact on the net pension liability accounted for in the financial statements. We have identified 1 audit adjustment with a total value of £343k. See Appendix 3 for details. These adjustments result in no net impact to the provision of services and the general fund. Based on our work, we have raised 2 recommendations. Details of our recommendations can be found in Appendix 1. We are now in the completion stage of the audit and anticipate issuing our completion certificate following the Humberside Fire Authority meeting on 27th of July 2018.

Summary for Audit Committee (cont.)

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 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** See further details on pages 17-18.
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.
Acknowledgements	We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our Audit work. We ask the Governance, Audit and Scrutiny Committee/Fire authority to note this report before approving the accounts.

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, system changes, system development and computer operations. In completing this work, we can partially rely on internal audit's reviews, which is further complemented by our own testing of the system access, authorisation and user refresh controls.

Key findings

We consider that your organisational and IT controls are effective overall, with no areas of concern.

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:	
Administrator Access	3
Password Configurations	3
Access Assignment and Revocation	3
Expenditure Authorisation and Three way Match facilities	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 the majority of the key financial systems are deemed to be sound and operating effectively.

Work completed

We reviewed and assessed the design and implementation of the Authority's controls, as part of our interim Audit procedures. We identified and tested those controls that address key risks within these systems and assessed the extent to which the risk is mitigated through control performance.

The strength of the control framework informs the substantive testing we complete during our final accounts visit.

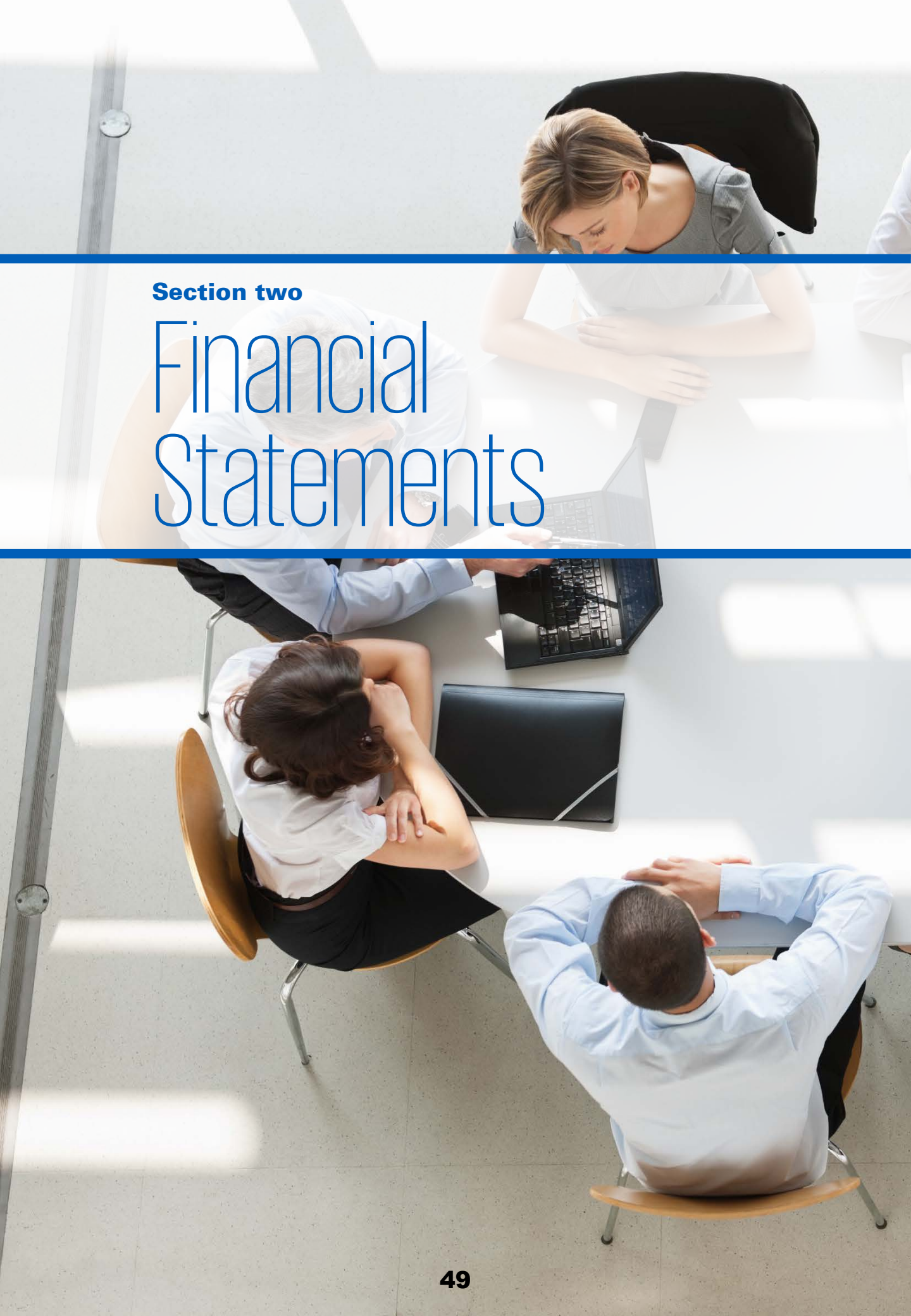
Our assessment of a system is solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

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	3
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 two of the three recommendations from our *ISA 260 Report 2016/17*.

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

We raised a total of 3 recommendations in our ISA 260 Report 2016/17. The Authority has implemented 2 of the 3 recommendations relating to the financial statements in line with the timescales of the action plan. The table below sets out the Authority's progress against the recommendations. Further details are included in Appendix 2.

Issue	Progress
High Priority: Sense Check of pensions data submission to Government Actuary Department (GAD)	KPMG tested the pensions data submitted to GAD, and confirmed how the entries which impact the pension asset and liability are appropriate, and can be reconciled back to source documentation; both internally and externally. Furthermore, the finance team has also sense checked this data during this process. **Recommendation fully implemented**
Medium Priority: Non Current Asset Register Maintenance – Compare the fixed asset register to the previous versions on a routine basis.	KPMG verified that the finance team have carried out a check of the 2017-18 Asset Register to the 2016-17 copy. This involved agreeing the gross carrying value, cumulative carrying value depreciation, carrying value net book value and the revaluation reserve balance to the PY FAR, as well as the PY final accounts. **Recommendation fully implemented.**
Low Priority: Management review of assets requiring revaluation – formal independent review of the request sent to the valuers regarding the assets requiring a revaluation.	This check was carried out by Shaun Dyke, who confirmed that the correct assets were requested to be revalued. **Recommendation fully implemented.**

Accounts production and audit process (cont.)

Completeness of draft accounts

We received a complete set of draft accounts in May 2018, which was in advance of the statutory deadline.

Quality of supporting working papers

We issued our Accounts Audit Protocol to Martyn Ransom on the 18th of April 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.

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 £8.164m. The impact on the General Fund has been an decrease of £1.463m. The Authority has used £0.141m of capital receipts to fund the capital expenditure.

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 – Authority

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.

This creates 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.

Also the Authority has appointed a new valuer, Carter Jonas LLP for 2017/18.

Our assessment and work undertaken:

Upon obtaining the revaluation report, it was apparent that the assets revalued in 2017/18 were subject to significant impairments; these impairments were greater than materiality,

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.

Due to the size of the impairments, it was agreed that the best approach to obtain assurance over the valuation of assets not revalued for four years, would be to complete a desktop valuation exercise of all assets.

All PPE assets were therefore revalued in year, and 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 value of Property, Plant & Equipment has been presented correctly within the financial statements.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

Pension Liabilities

The pension liability represents a material element of the Authority's balance sheet. The Authority's liability is split between the Local Government Pension Scheme and the Fire Fighters Pensions Scheme.

The valuation of the pension schemes relies on a number of complex judgements and assumptions, most notably around the actuarial assumptions and actuarial methodology which results in the Authority's overall pensions valuation. The Local Government Pension Scheme assets were valued at £35.9m as at 31 March 2017. The liabilities for the above were valued at £42.4m. The liabilities associated with the Fire Fighter's Pensions Scheme were valued at £616.310m in 2016/17. This resulted in an overall pension liability for the Authority of £622.803m.

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 obligations are not reasonable. This could have a material impact on the 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 to the Scheme Actuary, including the Authority's process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Hymans LLP and GAD.

We reviewed the appropriateness of the key assumptions included within the valuation and 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 Hymans LLP and GAD.

In addition, we reviewed the overall Actuarial valuations 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. As part of our audit of the Pension Fund we gained assurance over the overall value of fund assets. We then liaised with the actuary to understand how these assets are allocated across participating bodies and re-performed this allocation.

As a result of this work we determined that the value of the pension asset and liability has been presented correctly within the financial statements.

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
Valuation of pension assets and liabilities	3	3	The Authority continues to use GAD and Hymans Robertson 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. For example, a 0.5% change in the discount rate would change the net liability by £54 million and £5.23m for the Fire Fighters and Local Government pension scheme, respectively. The actual assumptions adopted by the actuary fell within our expected ranges with the exception of any outliers as set our below:
Property Plant & Equipment:	2	5	Our work (detailed on page 10) found that valuations have been undertaken by appropriately qualified and professional valuers and the assumptions used were prudent, reasonable and in accordance with RICS and LG Code guidance. In the previous year, it was identified that the valuer was optimistic in his valuation, in comparison to the new valuer in 2017/18, who had a more cautious approach in the adoption of various judgements.

Assumption	LGPS Actuary Value	KPMG Range	Overall Assessment - LGPS	FFPS Actuary Value	KPMG Range	Overall Assessment - FFPS
Discount rate	2.70%	2.36-2.66%	6	2.55%	2.50%	3
CPI inflation	2.40%	1.90-2.40%	1	2.30%	2.16%	2
Net discount rate	0.30%	(0.04-0.76%)	3	0.25%	0.34%	3
Salary Growth	2.60%	2.40-4.50%	5	4.30%	2.16-4.16%	3
Life expectancy Current male / female Future male/female	21.7/ 24.2 23.7/26.4	23.5/25.4 22.1/23.9	1	21.9/21.9 23.9/23.9	23.3/25.4 21.9/23.8	3

Although the assumption for the discount rate for the LGPS detailed above is outside of the KPMG acceptable range, this impact has been netted off against the cautious CPI inflation rate, providing a net discount rate which is within our acceptable range. This, therefore does not pose any risk to our findings

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, 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 16th of 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 £0.9 million. Audit differences below £45K are not considered significant.

We did not identify any material misstatements. We identified a number of issues that have been adjusted by management.

The tables below illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2018. The net impact on the General Fund as a result of audit adjustments is nil.

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').

Movement on the General Fund 2017-18

£m	Pre-Audit	Post-Audit
Deficit on the provision of services	36,024	36,024
Adjustments between accounting basis and funding basis under regulations	35,330	35,330
Transfers from earmarked reserves	(769)	(769)
Change in General Fund	**(1,463)**	**(1,463)**

Balance Sheet as at 31 March 2018

£m	Pre-Audit	Post-Audit	Ref[1]
Property, Plant & Equipment	47,463	47,463	
Other long term assets	338	338	
Current assets	15,505	15,162	1
Current liabilities	(7,420)	(7,763)	1
Long term liabilities	(619,684)	(619,684)	
Net worth	**(563,797)**	**(563,797)**	
General Fund	5,282	5,282	
Other useable reserves	5,045	5,045	
Unusable reserves	(574,034)	(574,034)	
Total Reserves	**(563,797)**	**(563,797)**	

[1] See referenced adjustments in Appendix 3.

Proposed opinion and audit differences (cont.)

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.

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.

Annual report

We have reviewed the Authority's 2017-8 Annual Report and can confirm it is consistent with the financial information contained in the audited financial statements

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 Humberside Fire Authority for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Humberside Fire 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 Kevin Wilson for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

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

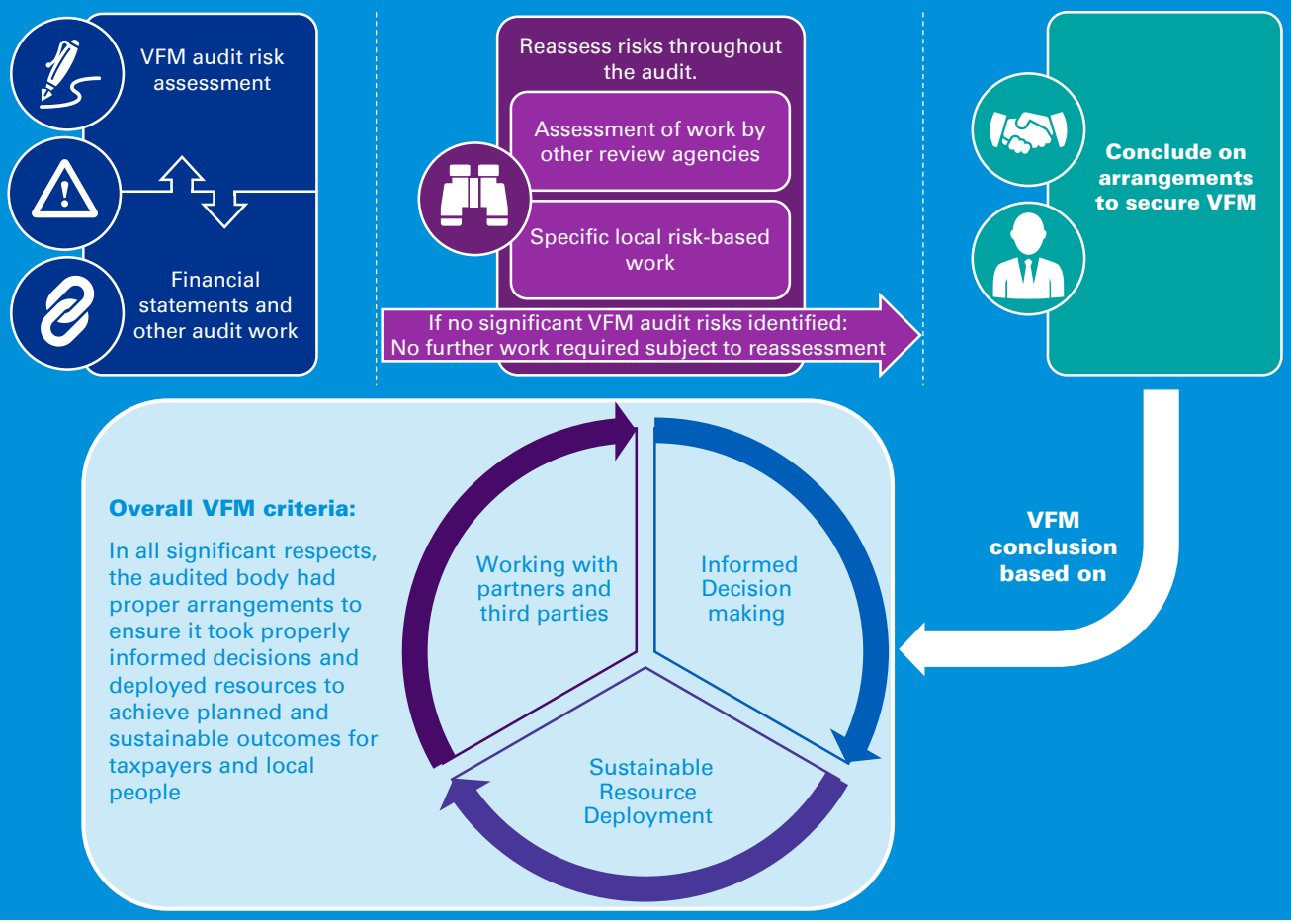
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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.)

Our assessment around VFM risks, did not identify any individual VFM risks against the three sub-criteria.

Therefore, 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.

Our work did not identify any areas of weakness in the Authority's arrangements.

Appendices

Appendix 1:

Key issues and recommendations

Our audit work on the Authority's 2017-18 financial statements has identified two 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: 1	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	2	Two transactions during the cut off period were not accounted for in the correct year, i.e. payments that were made after year end, were recorded as prepayments incorrectly. ***Risk*** There is a risk that transactions around 31st of March have been incorrectly accounted for in the wrong year, and thus there are under/over statements in the accounts, which in aggregation can be material. In this case, the errors identified were not material individually or in aggregation, but were above the reporting threshold and have thus been included within the adjusted audit differences. ***Recommendation*** We recommend ensuring that staff have appropriately accounted for each invoice and receipt at year end, via an independent review of all transactions during the cut off period. In addition, the finance team should carry out sample checks during the accounts closedown process, to ensure all transactions have been accounted for in the correct year.	Every effort is made to ensure that the transactions are matched to the appropriate year. The finance team will sample check invoices to ensure that they are accounted for in the correct financial year. ***Responsible Officer*** Martyn Ransom – Head of Finance ***Implementation Deadline*** March 2019

Appendix 1:

Key issues and recommendations

No.	Risk	Issue & Recommendation	Management Response
2	3	One Senior Officer did not disclose their related parties within their year end disclosures ***Risk*** There is a risk that the accounts will not present all related party transactions, and thus users of the accounts will not be aware of such transactions. ***Recommendation*** There is a clear process in place in regards to the senior officers disclosing their related parties. Senior officers are provided with guidance within the forms as to the method of completion. We would recommend the Finance team to sense check annual disclosures through comparison to previous years.	Agreed, the Finance team will check those officers that have previously made a declaration with the returns received. ***Responsible Officer*** Martyn Ransom – Head of Finance ***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 re-iterates any recommendations still outstanding.

Number of recommendations that were	
Included in the original report	[3]
Implemented in year or superseded	[2]
Outstanding at the time of our audit	[1]

No.	Risk	Issue & Recommendation	Management Response	Status as at 26/06/18
1	1	Sense check of pensions data submission to Government Actuary Department (GAD) ***Risk*** Data provided to GAD is not complete and accurate ***Recommendation*** We recommend the Authority should agree the ledger/TB back to the data submitted (to GAD), to ensure all entries on the TB at the time of accounts preparation match the data submission.	Accepted - Linking of working papers, sense checks and a comparison to previous years will be included in the accounts closedown process to minimise the likelihood of GAD data submission problems in the future. ***Responsible Officer*** Finance Manager/ deputy s.151 officer ***Implementation Deadline*** March 2018	KPMG tested the pensions data submitted to GAD, and confirmed how the entries which impact the Pension asset and Liability are appropriate, and can be reconciled back to source documentation; both internally and externally. Furthermore, the finance team have also sense checked this data during this process. **Recommendation fully implemented**
2	2	Non Current Asset Register Maintenance ***Risk*** Our testing on the non-current asset register identified a transposition error where part of a row was removed, but not the full row. This led to the information on the register to be distorted by part of one row. ***Recommendation*** The Authority should compare the fixed asset register to previous versions on a routine basis.	Accepted - The non-current Asset Register will have the opening balances transferred across following completion of the Audit ***Responsible Officer*** Finance Manager/ deputy s.151 officer ***Implementation Deadline*** December 2017	KPMG verified that the finance team have carried out a check of the 2017-18 Asset Register to the 2016-17 copy. This involved agreeing the gross carrying value, cumulative carrying value depreciation, carrying value net book value and the revaluation reserve balance to the PY FAR, as well as the PY final accounts. **Recommendation fully implemented.**
3	3	Management review of assets requiring revaluation ***Risk*** There is a risk that an asset could be significantly impaired in the 5 years from its last re-valuation. ***Recommendation*** formal independent review of the request sent to the valuers	Accepted - The list of Assets for revaluation will be sent to the external valuers as normal, further checking (by another member of staff) ***Responsible Officer*** Finance Manager / deputy s.151 officer ***Implementation Deadline*** December 2017	This check was carried out by Shaun Dyke, who confirmed that the correct assets were requested to be revalued. **Recommendation fully implemented.**

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.

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.

Adjusted audit differences – Authority

The following table sets out the significant audit differences identified by our audit of Humberside Fire 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.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1			Dr Current Liabilities £343k	Cr Current Assets £343k		One entry included within the prepayment (Debtors) balance was recorded incorrectly. This entry was paid after the 31/03/18 and thus was not a prepayment. This is a cut off issue, which has resulted in Recommendation 1 within appendix 1.

Other audit adjustments include:

- The Financial Instrument disclosure included a typo within. This does not impact the statement of accounts
- The statement of responsibilities is to be updated to reflect KPMG's audit report

Unadjusted audit differences

There are no uncorrected audit differences identified by our audit of Humberside Fire Authority's financial statements for the year ended 31 March 2018.

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 January 2018.

Materiality for the Authority's accounts was set at £0.9 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 £45k million 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

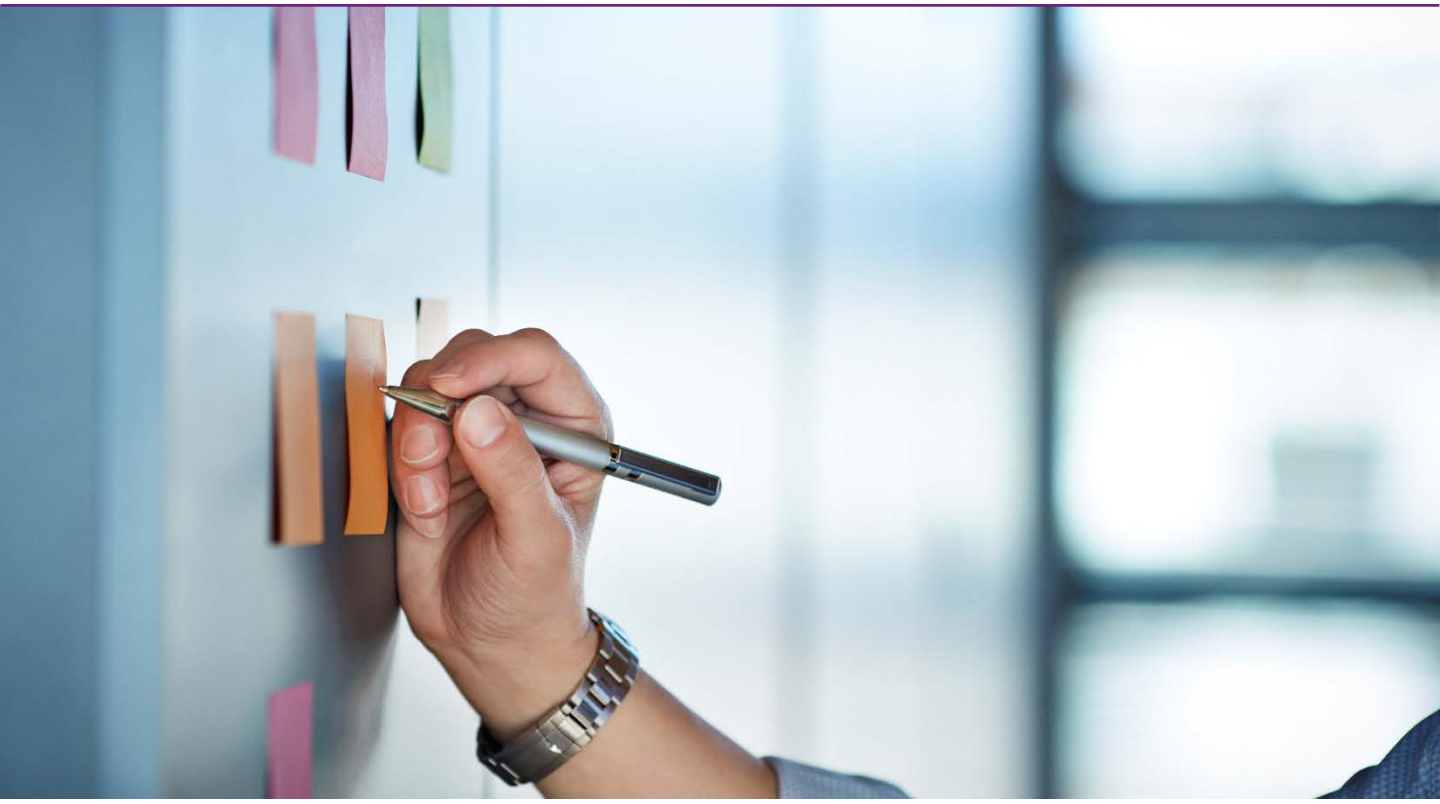
We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

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 March 2018.
Adjusted audit differences	We have identified 1 adjusted audit difference with a total value of £343k. See page 23 for details. This adjustment results in no change to the reported deficit on provision of services. See page 22 for further details.
Unadjusted audit differences	We have identified no unadjusted differences as a result of our audit of the Authority's financial statements
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 (see pages 4 to 5). We have identified 2 deficiencies in internal control of a lesser magnitude than significant deficiencies. See page 20-21 of the report.
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.

Appendix 5:

Required communications with the Audit Committee (cont.)

Required Communication	Commentary
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, 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.
Significant matters discussed or subject to correspondence with management	There were significant matters arising from the audit which were discussed, or subject to correspondence, with management: — Valuation of PPE — Pensions



Appendix 6:

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF HUMBERSIDE FIRE 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 and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period in the table below, 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	31,897	35,397
Total audit services	**31,897**	**35,397**

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. The ratio of non-audit fees to audit fees for the year was 0:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the following page.

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 Audit Director 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

The key contacts in relation to our audit are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Rashpal Khangura, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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