Grant Thornton

Audit Findings

Year ending 31 March 2018

Cheshire Fire Authority

9 July 2018

.

Contents

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Headlines

This table summarises the key issues arising from the statutory audit of Cheshire Fire & Rescue Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion: • the Authority's financial statements give a true and fair view of the Authority's financial position and of the group and Authority's expenditure and income for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on site during June and July. Our findings are summarised on pages 4 to 14. We have identified one adjustment to the financial statements that has resulted in a £2.044m adjustment to the Statement of Comprehensive Income and Expenditure and the revaluation reserve which is an unusable reserve. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. There were no recommendations from the prior year's audit that needed to be followed up. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Authority meeting on 18 July 2018, as detailed in Appendix D. These outstanding items include: • work in progress on journals and the pensions liability, • receipt of management representation letter; and • review of the final set of financial statements. We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	We have completed our risk based review of the Authority's value for money arrangements. We have concluded that Cheshire Fire Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 15 to 17.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • certify the closure of the audit	We have not exercised any of our additional statutory powers or duties We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Authority's business and is risk based, and in particular included:

- Consideration of the developments in Blue Light Collaboration
- The development of the Integrated Risk Management Plan and the implications for resource deployment
- Review for updates to the Accounts and Audit Regulations and the CIPFA Code Practice on Local Authority Accounting in the UK.
- Consideration of the financial pressures affecting the wider local government sector

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Authority meeting on 18 July 2018, as detailed in Appendix D. These outstanding items include:

- work in progress on journals and the pensions liability
- receipt of management representation letter; and
- review of the final set of financial statements.

Summary

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our assessment of the value of materiality and clearly trivial matters has been adjusted to reflect the fall in gross expenditure since last year. We detail in the table below our assessment of materiality for Cheshire Fire Authority.

	Authority Amount (£)	Qualitative factors considered
Materiality for the financial statements	£801k	Materiality has been based on 2% of the Authority's gross expenditure. This is considered an appropriate benchmark because the Authority's stakeholders will be interested in how it has used resources to deliver services. We reduced our materiality from the planned £847k to £801k due to lower than expected expenditure in the draft accounts.
Performance materiality	£561k	Our performance materiality is set at 70% of our financial statements materiality; this enables to sufficiently detail and coverage across our audit testing. Performance materiality has reduced from the planned £593k to £561k due to the change in overall materiality.
Trivial matters	£40k	This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties. Triviality has reduced from the planned £42k to £40k due to the change in overall materiality.
Materiality for specific transactions, balances or disclosures	£20k	Officer remuneration and termination benefits are sensitive items over which stakeholders will expect the Authority to take particular care.

Going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary	Auditor commentary
Management's assessment process Management has reviewed the grounds on which the financial statements are prepared on a Going Concern basis and reported these considerations to members at the Closure of Accounts Committee. Management has specifically referred to: • The Authority is responsible for the delivery of essential public services, should it find itself in financial difficulty, those service would continue to be delivered either by Central Government or another agency or local authority. • The Authority prepares a Medium Term Financial Plan (MTFP) covering the current and following three financial year, this plan is based on assumptions derived from the best available information and supports the vie that the Authority remains financially viable. • The Authority has significant reserves available and an established strategy for managing and using those reserves. • The Authority prepares high level cash-flow forecast that supports the MTFP, and daily cash-flow forecasts ensuring it is able to meet its liabilities as they fall due. • Financial risks are incorporated into the Strategic Risk Register. • The significant pensions liability reported in the financial statements is an actuarial liability and the MTFP shows that the Authority is able to meet pensions contributions as they fall due throughout the planning period.	• Managements assessments assessment of the applicability of the Going Concern basis is appropriate for a statutory body • The process has drawn on the arrangements and information available for its normal planning and reporting processes. • The review has carried out by and reported to Members by the Treasurer who is s151 officer.
Work performed We have reviewed the assessment by management and cross referred this to our work on the Authority's value for money arrangements.	• We have not identified any material uncertainties relating to the application of the Going Concern basis.
Concluding comments	• Our audit opinion will be unmodified.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Cheshire Fire Authority, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Cheshire Fire Authority.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. ..	• We have: – reviewed accounting estimates, judgements and decisions made by management – tested journal entries – looked to identify unusual significant transactions – reviewed of significant related party transactions and considered whether they fall outside the normal course of business Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan	Commentary
3 **Valuation of property, plant and equipment** The Authority revalues its land and buildings on a five-yearly basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	The work undertaken was: • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with the Authority's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they were input correctly into the Authority's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. The Authority commissioned a review of its asset portfolio values and adjusted where there was a material difference between gross book value and the current value as determined by the valuer. The Code at 4.1.2.37 requires authorities to review carrying value, i.e. net book vale, against the current value at each reporting date. When applying this criteria further revaluations needed to be recognised. This resulted in an increase to asset values of £2.044 million and a corresponding increase to the surplus on revaluations within other comprehensive income. There is no impact on the general fund as a result of these changes.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
4	**Valuation of pension fund net liability** The Local Government Pension Scheme (LGPS) pension net liability as reflected in the balance sheet, and asset and liability information disclosed in the notes to the accounts, represent significant estimates in the financial statements. The Firefighters Pension schemes pension fund liability as reflected in the balance sheet and notes to the accounts represent significant estimates in the financial statements. These estimates by their nature are subject to significant estimation uncertainty, being sensitive to small adjustments in the assumptions used. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	The undertaken was: • Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. At the time of writing this report, the work of testing these arrangements was in progress and we expect to complete it before the Authority meeting on 18 July. • Review of the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation. • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. We have not identified any issues from our work to date, we will confirm the outcome of our testing on 18th July.

Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
7	**Employee remuneration** Payroll expenditure represents a significant percentage 73% of the Authority's operating expenses. As the payroll expenditure comes from a number of individual transactions and an interface with sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle; • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; • Completed a detailed substantive analytical review of employee remuneration; • Tested changes in workforce numbers by sample testing starter and leaver records; • Substantively tested disclosures for senior officer pay bandings and for exit packages. Our conclusion is that employee remuneration is not materially misstated.
8	**Operating expenses** Non-pay expenses on other goods and services also represents a significant percentage (27%) of the Authority's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention:	We have undertaken the following work in relation to this risk: • evaluated the Authority's accounting policy for recognition of non-pay expenditure for appropriateness; • gained an understanding of the Authority's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • Substantively tested a sample of transactions; Our conclusion is that operating expenses are not materially misstated.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority. • Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority. • The council tax and NNDR income included in the Comprehensive Income and Expenditure Statement is the Authority's share of the accrued income for the year, adjusted for the surpluses and deficits on Collection fund accounts. • Government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that, the Authority will comply with the conditions attached to the payments and the grants or contributions will be received.	• The accounting policies for revenue recognition is appropriate under the accounting framework set out in the CIPFA Code of Practise on Local Authority Accounting in the UK and the statutory requirements for Local Government. • There is limited need for the Authority to exercise judgement when applying these policies because the vast majority of transactions will be settled by the reporting • The accounting policy is adequately disclosed in the financial statements and given prominence within the Accounting policies note • The accounting policy is consistent with those of similar authorities.	●

Assessment
- ● Marginal accounting policy which could potentially be open to challenge by regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	Key estimates and judgements include : Useful life of PPE The authority has estimated the useful life of PPE based the inherent lives of the assets, where appropriate having taken technical advice from a suitably qualified officer and the assumption that the authority will continue to deliver services beyond the life of the asset. Revaluations The Authority commissions full revaluations of its PPE portfolio at least every five years and commissions an annual review for material changes. Investment in NW Fire Control Limited The authority has determined that this relationship is a joint operation based on the control arrangements and has an immaterial impact on the reported balances of the Authority based on a quantitative assessment. Valuation of pension fund net liability The net pension fund liability has been determined on the basis of an assessment of appropriate assumption by an independent actuary. The assets have been valued on a fair value basis, the returns on investments on have been calculated on a market basis and liabilities estimated based on assumptions about longevity, wage growth and inflation. All assumptions have been subjected to sensitivity analysis and the results disclosed in the financial statements.	• These judgements and estimates are appropriate for the underlying accounting policy to which they relate under the accounting framework set out in the CIPFA Code of Practise on Local Authority Accounting in the UK and the statutory requirements for Local Government. • The extent of judgement involved, is clearly disclosed in the notes to the financial statements. • Potential impact on financial statements of different assumptions or variations as a result of sensitivity have been appropriately disclosed. • The estimates and judgements used in applying these accounting policies are consistent with those used by similar authorities.	●
Other critical policies		We have reviewed the Authority's policies against the requirements of the CIPFA Code of Practice. The Authority's accounting policies are appropriate and consistent with previous years.	●

Assessment
- ● Marginal accounting policy which could potentially be open to challenge by regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Authority. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A standard letter of representation has been requested from the Authority, including specific representations in respect of the accounting treatment of NWFC Limited, and the fair value of PWLB loans which is appended.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to banks and other deposit holders. This permission was granted and six requests were sent. One of these requests was returned with positive confirmation, two requests were queried by the bank and further information has been provided, three have not been returned; to verify these balances not confirmed by responses we undertook alternative procedures, including confirmation to contemporaneous bank reports and statements.
6	**Disclosures**	• We identified one disclosure anomaly at note 7 to the financial statements, the analysis of income and expenditure by nature. Management has amended the note; • We identified omissions 5 from, and one error within, the banding of employees paid more the £50,000; The full details are set out in appendix B.

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Other information**	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. • No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters The Accounts and Audit Regulation 15 sets out the requirements for publication at the start of the inspection period and 15) 2) a) ii) requires the Annual Governance Statement to be made available, at the same time as the financial statements, even if not yet approved by the Authority. The Financial Statements were published following the Closure of Accounts Committee on 30 May 2018. The Annual Governance Statement was published at a later date with the papers for the Constitution and Governance Committee. As the Annual Governance Statement was not published at the same time as the accounts, we believe the Authority has not fully complied with the regulation. We recommend that Authority publishes the Financial Statements and Annual Governance Statement together in future years to ensure compliance.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. • Note that work is not required as the Authority does not exceed the threshold.
4	**Certification of the closure of the audit**	We intend to certify the closure of the 2017/18 audit of Cheshire Fire Authority in the audit opinion, as detailed in Appendix D (opinion)

Value for Money

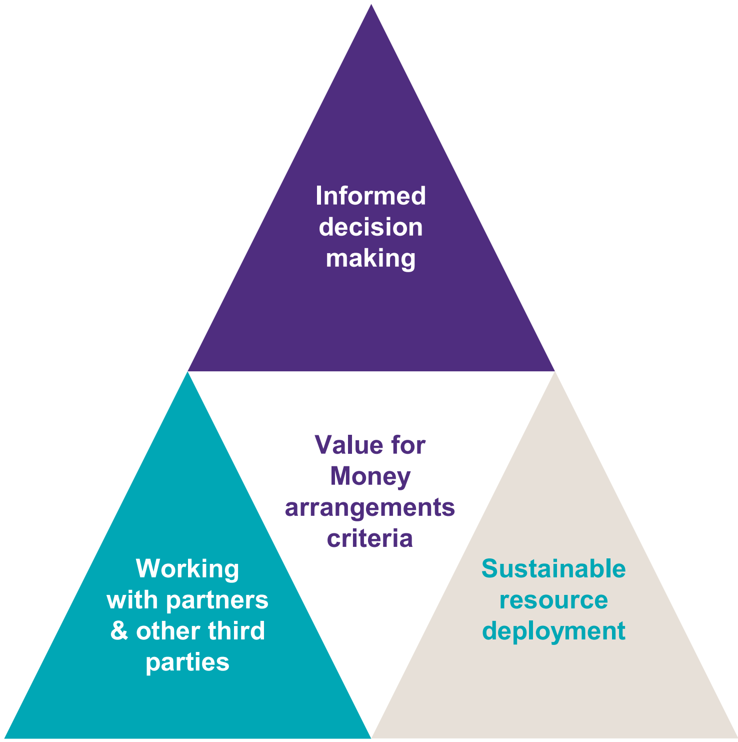
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February 2018 and identified a significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 14 March 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risk determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Authority's arrangements. In arriving at our conclusion, our main considerations were:

- Whether the Authority’s financial planning was soundly based on an understanding of service needs, whether financial performance was accurately monitored.
- Whether the outturn position was consistent with reported plans and the way in which the Authority has managed in-year developments.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on page 17.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

“The Authority had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.”

The text of our report, which confirms this can be found at Appendix D.

Recommendations for improvement

We discussed findings arising from our work with management and have no agreed recommendations for improvement.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
Financial sustainability The Authority is operating against a background of: • Funding reductions • Changes in the legislative and policy requirements • Changes to the regulatory bodies and frameworks At the same time it is planning to maintain council tax rises at less than 2% and fund its capital programme from reserves. To achieve this the Authority will need to exercise strong financial discipline.	• We reviewed the Authority's arrangements for budgeting and for monitoring and reporting financial performance. • We examined evidence in the form of Authority agenda and Meeting papers, and Published Policy documents such as the Efficiency Plan and Integrated Risk Management Plan. • We held discussion with officers and reviewed internal documents such as working drafts of the Medium Term Financial Plan. • We critically reviewed out-turn performance against budget.	We found: • The Medium Term Financial Plan is soundly based and is driven by the needs identified in the Integrated Risk Management Plan, balanced against the need for savings identified in the Efficiency Plan. • Planned spend on services was £40,018k actual spend in the year was £41,620k. • £2,226K of current year expenditure was planned to be funded from reserves. • There has been a mix of over and underspends, with some over spends the result of changed circumstances, for example the response Grenfell Tower and the changes crewing at to Crewe and Ellesmere Port stations. • Savings have been achieved in part through planned efficiencies and in part through identifying savings opportunities as they arise such managing vacancies. • The Authority has identified that the rates available for suitably secure investments are low and is able to utilising cash balances for capital projects while maintaining adequate resources to meet day to day liabilities. • The changing nature the work Fire and Rescue Authorities are expected to undertake will lead to challenges but can contribute to overall efficiency. **Conclusion** • The Authority has in place proper arrangements to manage the identified risk and therefore had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

Independence and ethics

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority.

Non-audit services

No non-audit services were identified

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Action plan

We have identified one recommendations for the Authority as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on this recommendation during the course of the 2018/19 audit. The matter reported here is limited to the deficiency we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations	Management response
1	●	The Annual Governance Statement was not published alongside the Financial Statements and Narrative at the start of the period for the exercise of electors rights. We believe the Authority has not fully complied with the Accounts and Audit Regulations 2015.	The Authority should publish the Annual Governance Statement alongside the Financial Statements and Narrative Report in future years to ensure full compliance with the regulations.	**Agreed action** Timetable for publication will be amended **Responsible officers** The Treasurer and the Director of Governance and Commissioning **Due date** 31 May 2019

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
1	The Authority commissioned a review of its asset portfolio values and adjusted where there was a material difference between gross book value and the current value as determined by the valuer. The Code at 4.1.2.37 requires authorities to review carrying value, i.e. net book value, against the current value at each reporting date. When applying this criteria further revaluations needed to be recognised; this changed the comprehensive income and expenditure account and revaluation reserve but had had no effect on the general fund.	Cr £2,044	Dr £2,044	Cr £2,044
	Overall impact	**Cr 2,044**	**Dr 2,044**	**Cr £2,044**

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure error	Detail	Auditor recommendations	Adjusted?
Note 7 Expenditure and Income analysed by nature	This is a note to the Comprehensive Income and Expenditure Statement (CIES) and is intended to show the reader the goods and services on which expenditure is incurred and from which income is derived rather than the activities it contributes to. The format is set out in paragraph 3.4.2.43 of the Code and the analysis agrees back to the surplus or deficit on provision of surpluses. The Authority had provided an analysis that shows the movement on General Fund and therefore breaks the link to the CIES.	• Amend the analysis in line with the Code. **Management response** • Agreed	✓
Note 23 Officers remuneration- officers receiving more than £50,000	A number of employees have two remunerated roles with the Authority, the draft financial statements only the included remuneration for the primary role. The impact has been to bring in five additional employees to the band £50,000-£54,999, and to move one employee from that band to the band £60,000- £64,999	• Amend the analysis in line with the Code. **Management response** • Agreed	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2017/18 audit which have not been made within the final set of financial statements. The Authority is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	The Authority has adjusted for its in-year transactions with NWFC Limited and accounted for its share of the income and expenditure for the year. The authority has not accounted separately for its share of the assets and liabilities of NWFC. The impact on the balance sheet would be as follows;				The inclusion NW Fire Control Limited on the reported balances of Cheshire Fire Authority is not material on either an aggregate or line by line basis. Qualitative aspects of materiality have been considered and are considered to be fully addressed through the existing disclosure for Related Party Transactions and separate disclosure of NWFC Limited relationship.
	PPE	0	Dr 30	0	
	Intangibles Assets	0	Dr 366	0	
	Debtors	0	Cr 62	0	
	Cash at bank	0	Dr 164	0	
	Pensions liability	0	Cr 785	0	
	Net Liabilities	0	Cr 287	0	
	Reserves	0	Cr 593	0	
2	Loans from the PWLB are carried on the balance sheet at their amortised cost. In addition the fair value of the loans is disclosed in the notes to the Accounts. The Authority has disclosed the fair value of £2,206k as advised by Link Asset Management Services, (LAMS) calculated using a discount rate derived from the redemption rate and the new loan certainty rate. Our view is that standard new loan should be used and LAMS acknowledge that the standard new loan rate may be more appropriate. Using the standard new loan rate would give a fair value of £2,089k.	0 Disclosure only	0 Disclosure only	0 Disclosure only	The purpose of the disclosure is to provide the reader with more information about the liabilities the authority carries on its balance sheet and the risks associated with those liabilities. The Authority reviews its borrowing strategy each year and the current strategy is to meet capital expenditure from internal borrowing therefore it is unlikely that new borrowing will be incurred yet. The difference in the disclosed fair value and that on new loan basis is immaterial and unlikely to be of value the reader of the accounts.
	Overall impact	**0**	**Cr 593**	**0**	

Impact of prior year unadjusted misstatements

There were no unadjusted misstatements reported in the previous year.

Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit fees	Proposed fee	Final fee
Audit of the authority	29,860	29,860
Total audit fees (excluding VAT)	**29,860**	**29,860**

Provide details of any variations in final fees from the proposed fee (per the audit plan).

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Non Audit Fees

We confirm that no non-audit or audited related services have been undertaken for the Authority.

Audit opinion

We anticipate we will provide the Cheshire Fire Authority with an unmodified audit report

Independent auditor's report to the members of Cheshire Fire Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cheshire Fire Authority (the 'Authority') for the year ended 31 March 2018 which comprise, the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including the Expenditure and Funding Analysis note and a summary of significant accounting policies and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Treasurer is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages [**xx to xx**], the Narrative Report, and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

• we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

• we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

• we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Treasurer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page(s) x to x the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Treasurer. The Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Treasurer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Authority is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Andrew Smith
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Date

4 Hardman Square
Spinningfieldsd
Manchester
M3 3EB

Management representations

Our Ref
Your Ref

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester
M3 3EB

18 July 2018

Dear Sirs

Cheshire Fire Authority
Financial Statements for the year ended 31 March 2018

This representation letter is provided in connection with the audit of the financial statements of Cheshire Fire Authority for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the Authority financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

1. We have fulfilled our responsibilities for the preparation of the Authority's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
2. We have complied with the requirements of all statutory directions affecting the Authority and these matters have been appropriately reflected and disclosed in the financial statements.
3. The Authority has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
4. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
6.Except as disclosed in the financial statements:
- there are no unrecorded liabilities, actual or contingent
- none of the assets of the Authority has been assigned, pledged or mortgaged
- there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

7. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
8. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
9. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
10. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Authority financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
11. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Authority and its financial position at the year-end.
12. The financial statements are free of material misstatements, including omissions.
13. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
14. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
15. We believe that the Authority's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Authority's needs. We believe that no further disclosures relating to the Authority's ability to continue as a going concern need to be made in the financial statements.

Information Provided

16.We have provided you with:

access to all information of which we are aware that is relevant to the preparation of the Authority financial statements such as records, documentation and other matters;

additional information that you have requested from us for the purpose of your audit; and

unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

17. We have communicated to you all deficiencies in internal control of which management is aware.
18. All transactions have been recorded in the accounting records and are reflected in the financial statements.
19. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
20.We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements.

Management representations

21. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
22. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
23. We have disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which we are aware.
24. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

25. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Authority's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

26. The disclosures within the Narrative Report fairly reflect our understanding of the Authority's financial and operating performance over the period covered by the Authority financial statements.

Approval

The approval of this letter of representation was minuted by the Authority at its meeting on 18th July 2018.

Yours faithfully

Name……………………………
Position…………………………..
Date…………………………….

Name……………………………
Position…………………………..
Date…………………………….

Appendix A

Schedule of unadjusted Misstatements

Detail	Comprehensive Income and Expenditure Statement £000s	Balance Sheet £000s	Impact on total net expenditure £000s
The authority has not accounted separately for its share of the assets and liabilities of NWFC. The impact on the balance sheet would be as follows; PPE Intangibles Assets Debtors Cash at bank Pensions liability Net Liabilities Reserves	0 0 0 0 0 0 0	Dr 30 Dr 366 Cr 62 Dr 164 Cr 785 Cr 287 Cr 593	0 0 0 0 0 0 0
The fair value of the loans is disclosed in the notes to the Accounts at £2,206k as advised by Link Asset Management Services, (LAMS) calculated using a discount rate derived from the redemption rate and the new loan certainty rate. Using the standard new loan rate would give a fair value of £2,089k.	0 Disclosure only	0 Disclosure only	0 Disclosure only