

# The Audit Findings for Cheshire Fire Authority

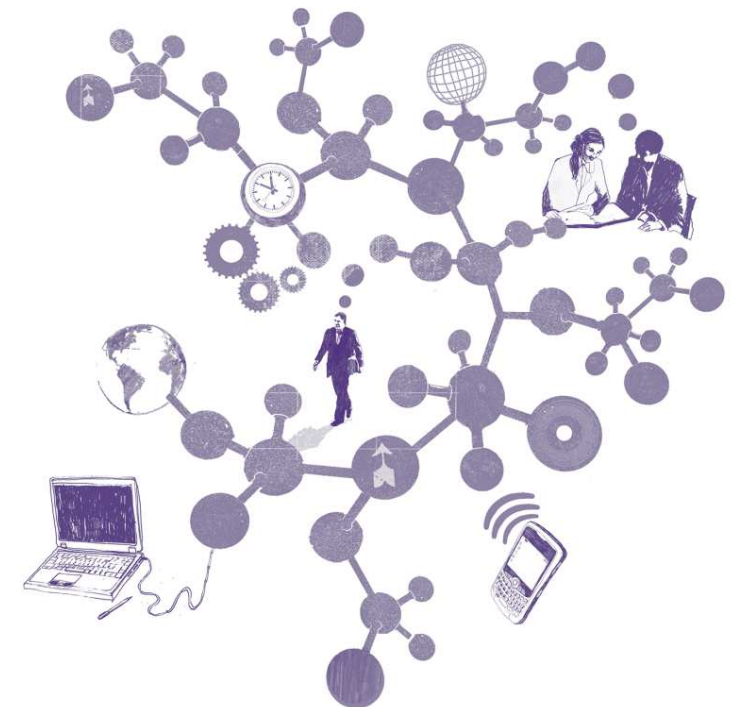
Year ended 31 March 2016

26 August 2016

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Councillor Rudd  
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26 August 2016

Dear Councillor Rudd

### **Audit Findings for Cheshire Fire Authority for the year ending 31 March 2016**

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Cheshire Fire Authority, the Authority itself), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

Robin Baker

#### **Chartered Accountants**

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- B Audit opinion

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# Section 1: Executive summary

**01. Executive summary**

02. Audit findings

03. Value for Money

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## Purpose of this report

This report highlights the key issues affecting the results of Cheshire Fire Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Authority's financial statements give a true and fair view of the financial position of the Authority and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). We are required to provide a conclusion whether in all significant respects, the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Authority or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Authority and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 26 February 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- obtaining requested external confirmations relating to investments and LG pensions liabilities,
- review of the final version of the financial statements,
- obtaining and reviewing the management letter of representation
- review of revised versions of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work, and in accordance with the agreed timetable.

## **Key audit and financial reporting issues**

### **Financial statements opinion**

We have identified no adjustments affecting the Authority's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2016 recorded net expenditure of £62,599k. We have recommended a small number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Authority's financial statements are:

- as last year, the draft accounts were prepared to a good standard and were supported by comprehensive working papers;
- we were able to commence our audit as previously planned and agreed with the Authority; and
- going forward, the Authority should consider how it accounts for its share of the North West Fire Control Centre in its financial statements.

The Authority was notified of a late adjustment to the 2015/16 accounts of Cheshire East Council relating to the national non-domestic rates provision in mid August. The impact on the Authority's accounts is a reduction to the expected income recorded in the Comprehensive Income and Expenditure Statement of £36,000. Management consider this amount is not material to the Authority's 2015/16 financial statements and have not amended the accounts. Authority Members, as those charged with Governance should confirm the approach taken by management.

Other than the above, there are no other material errors or uncertainties and we anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

### **Other financial statement responsibilities**

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes 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 information of which we are aware from our audit. There are no issues arising from our work in this area which we wish to bring to your attention.

## **Controls**

### **Roles and responsibilities**

The Authority's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Authority.

### **Findings**

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

## **Value for Money**

Based on our review, we are satisfied that, in all significant respects, the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

The Authority continues to have effective arrangements in place to manage its financial position with a small surplus being delivered in 2015/16 of £941k. The Authority approved its 2016/17 budget with a 1.99% precept increase which also included a savings requirement of £900k which management has identified will be delivered mainly from the organisational review and non pay savings amounting to £792k. The Authority continues to develop its collaborative working with Cheshire Police and progress has been made with the planned investment in new facilities during the year.

Further detail of our work on Value for Money are set out in section three of this report.

## **Other statutory powers and duties**

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

## **The way forward**

Matters arising from the financial statements audit and our review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Head of Finance.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Head of Finance and the finance team.

## **Acknowledgement**

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.

**Grant Thornton UK LLP**  
26 August 2016

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## Section 2: Audit findings

01. Executive summary

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# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £844k (being 2% of budgeted gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and revised our overall materiality to £724k (being 2% of gross revenue expenditure), based on the draft financial statements.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £37k.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£0
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£0

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Cheshire Fire Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Cheshire Fire Authority, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have performed the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• review of entity controls</li> <li>• testing of journal entries</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• review of unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

## Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p><b>The expenditure cycle includes fraudulent transactions</b></p> <p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially where the body is required to meet targets.</p>	<p>Our existing audit procedures incorporate testing in all the main areas of the Authority's expenditure, as a result, we did not consider a need to perform any additional audit tests in respect of this risk. Our testing included:</p> <ul style="list-style-type: none"> <li>• employee costs which is addressed by our procedures on employee remuneration (accounting for over 75% of expenditure)</li> <li>• supplies and services expenditure which is addressed by our procedures in response to this risk (accounting for some 10% of expenditure)</li> <li>• premises and transport costs which is addressed by our procedures in response to this identified risk (accounting for around 8% of expenditure)</li> <li>• other operating expenditure, which is made up of individually immaterial expenditure streams and so the risk of material error is deemed to be low.</li> </ul>	<p>Our audit work has not identified any issues in respect of fraudulent transactions within the expenditure cycle</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Employee remuneration</b>	Employee remuneration accruals understated (Remuneration expenses not correct).	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>sample tested remuneration transactions for the whole year</li> <li>undertaken a predictive analytical review of payroll expenditure.</li> <li>reconciled the payroll system to the general ledger and financial statements</li> <li>completed a trend analysis of the monthly payroll expenditure.</li> <li>tested year-end payroll accruals.</li> <li>reviewed and tested the remuneration report and exit package disclosures.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>Our substantive testing of a sample of 25 individuals paid throughout the year did not identify any issues with the accuracy of payments or the calculation of employer "on-costs".</p>
<b>Operating Expenses</b>	Creditors understated or not recorded in the correct period (Operating expenses understated).	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of the processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>Substantively tested expenditure transactions for the full year</li> <li>Reviewed and tested year-end accrued expenditure</li> <li>Sample tested payables at the year-end</li> <li>Completed 'cut-off' testing of expenditure recorded in the 2015-16 general ledger for understatement and unrecorded liabilities.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified. Our work included:</p> <ul style="list-style-type: none"> <li>testing of a sample of 20 expenditure items which did not identify any issues relating to the accuracy or classification of expenditure</li> <li>review and substantive testing of a sample of 20 year end accruals and creditor balances which confirmed the validity and accuracy of balances</li> <li>testing of a sample of 10 payments made in 2016/17 to determine whether the associated expenditure was recorded in the correct financial year with no issues arising.</li> </ul>

# Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Firefighters' pensions benefit payments</b></p>	<p>Benefits improperly computed/ claims liability understated</p> <p>Payments to retiring officers are low in volume but high in value and the service is reliant on effective controls both within and outside the organisation to ensure that payments made are valid and accurate.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of the processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>Sample tested lump sum and pensions payments for the whole year</li> <li>Undertaken a predictive analytical review of the pensions payroll</li> <li>Agreed the balances in the pension fund account to the underlying pension system.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>Our analytical review of the benefit payments paid and our substantive testing of a sample of 10 new pension benefit payments did not identify any issues with the accuracy of payments.</p>
<p><b>Employee remuneration</b></p>	<p>Valuation of pension fund net liability</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated</li> <li>walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements</li> <li>review of the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation</li> <li>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</li> <li>reviewing the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>We received information from the Pension Fund auditors on 29 July 2016 confirming there were no significant issues arising from their work on the Pension Fund accounts which impact on Cheshire Fire Authority.</p> <p>The overall net pension liability of the Authority has decreased from £528.6m at 31 March 2015, to £474.0m at 31 March 2016.</p>

## Audit findings against other risks continued




Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Firefighters' pensions contributions</b></p>	<p>Contributions revenue is fraudulently recognised</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• substantively tested a sample of payroll deductions for the whole year to ensure the correct % rate has been applied</li> <li>• completed a predictive analytical review of the contribution revenue.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>Our substantive testing of a sample of 25 pension deductions throughout the year did not identify any issues with the accuracy of the deductions.</p>

## Significant matters discussed with management

	Significant matter	Commentary
1.	Discussions or correspondence with management regarding accounting practices, the application of auditing standards, or fees for audit or other services.	<p>We have discussed with management the arrangements and the related accounting treatment of Cheshire Fire Authority's share (25%) of North West Fire Control's (NWFC) balances. We are satisfied that management has demonstrated that it is appropriate to treat this arrangement as a joint operation and recognise the on-going discussions management continue to have with NWFC and the other joint operators as to the appropriateness of the accounting entries in the financial statements.</p> <p>For joint operations, IFRS 11 requires a reporting authority that is a joint operator to recognise in relation to its joint interest in a joint operation, all: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operations, and its expenses, including its share of any expenses incurred jointly.</p> <p>Management has determined that Cheshire Fire Authority's share of NWFC assets, liabilities and operating revenues and expenses are not material for 2015-16. The Authority has therefore not made any accounting adjustments for its share of NWFC's balances, above those processed as part of day-to-day transactions with NWFC through its income and expenditure account. We have reviewed the Authority's share of NWFC balances on a line by line basis and confirmed that after intra-group balances have been deducted, the Authority's share is not material.</p> <p>Whilst the amounts involved are not material, the Authority should consider including all its share of its assets and liabilities in its accounts going forward. We will work with the Authority to help in this transition during 2016/17.</p> <p><b>Management response</b></p> <p>Following discussions with the Head of Finance, management have agreed to consider incorporating all the Authority's share in North West Fire Control into the Authority's accounts from 2016/17 onwards. The Authority will also continue to liaise with the other three members of NWFC to ensure consistency of approach.</p>

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Authority's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>The Authority's policy for recognising revenue is to recognise it when the economic benefits or service potential will flow to the Authority.</li> </ul>	<ul style="list-style-type: none"> <li>The Authority's policy is appropriate and consistent with the CIPFA Code of Practice</li> <li>A significant amount of the Authority's revenue is predictable meaning that there is minimal judgement involved in identifying when to recognise income</li> <li>The accounting policy is adequately disclosed.</li> </ul>	
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>Useful life of PPE</li> <li>PPE revaluations</li> <li>Valuation of pension fund net liability.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>The Authority's policies are appropriate and consistent with the CIPFA Code of Practice</li> <li>The Authority has summarised its key judgements in note 5 of the financial statements</li> <li>PPE revaluation estimates are covered within other material balances and transactions (page 16)</li> <li>Valuation of the pension fund net liability is covered within other risks (page 15)</li> <li>The accounting policies have been adequately disclosed.</li> </ul>	
<b>Going concern</b>	<p>The Head of Finance and S151 officer has a reasonable expectation that the services provided by the Authority will continue for the foreseeable future. Members concur with this view. For this reason, the Authority continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the Authority's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.</p>	

**Assessment**



# 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.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with leading members of 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.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Authority.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send a number of confirmation requests. This permission was granted and the requests were sent. We are currently waiting for a number of bank and investment confirmation letters.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
7.	<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a number of areas. We have not identified any issues we would be required to report by exception in the following areas:</p> <ul style="list-style-type: none"> <li>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 information of which we are aware from our audit</li> <li>The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Authority acquired in the course of performing our audit, or otherwise misleading.</li> </ul>

## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration, including firefighters' pensions, Property, Plant and Equipment and Operating Expenses.

The controls were found to be operating effectively and we have no matters to report to the Authority.

## Adjusted misstatements

There have been no adjustments made to the draft accounts.

## Unadjusted misstatements

The Authority was notified of a late adjustment to the 2015/16 accounts of Cheshire East Council relating to the national non-domestic rates provision in mid August. The impact on the Authority's accounts is a reduction to the expected income recorded in the Comprehensive Income and Expenditure Statement of £36,000. Management consider this amount is not material to the Authority's 2015/16 financial statements and have not amended the accounts. Authority Members, as those charged with Governance should confirm the approach taken by management. We have not identified any other misstatements which management have not amended.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1 Collection Fund deficit (business rates) Collection Fund Adjustment Account Provision (business rates)	36*	36 (36)	The amount is not considered material to the Authority's financial statements.
<b>Overall impact</b>	<b>£36</b>	<b>£0</b>	

\* This is reversed out in the Movement in Reserves Statement with no impact on General Fund.

## Misclassifications 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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	Various	Capital	Additional disclosure table of capital expenditure added to the narrative report
2 Disclosure	N/A	N/A	A presentational change to clarify the name of the Authority on the front page of the financial statements

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Authority. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Authority has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in February 2016 and did not identify any significant risks. However, we noted that the Authority continues to face on-going financial challenges but continues to have effective arrangements in place to manage its finances. The actual 2015/16 outturn position was an underspend of £941k against a revised budget of £42.5m, increasing the Authority's general reserves to £7.4m at the year end.

During the year, the Authority also spent £6.1m on capital (non current assets), with over £5m of this spend relating to the build costs of three new fire stations as well as 'Safety Central', a dedicated safety centre.

The Service continues to work with Cheshire Police on Blue Light Collaboration with a view to integrating back-office and professional services. The arrangements for closer working are overseen by the Blue Light Collaboration Board. The Authority agreed during April 2016 to also co-locate its headquarters to the current Police headquarters, it is hoped this will foster closer working arrangements as well as generate financial efficiencies for both organisations. This transition to the Police headquarters has now commenced.

The Authority also continues to work with its partners and stakeholders and has agreed a number of new initiatives, including for example, acting as first responder for cardiac arrests, as well as, working with North West Ambulance Service to provide access to ambulance staff to patient homes.

From January 2016, the responsibility for Fire and Rescue Services moved from the Department of Communities and Local Government (DCLG) to the Home Office. At this stage, the Authority is uncertain as to whether this change will have any financial impact on the Authority.

Our initial risk assessment in February 2016 did not identify any significant risks requiring further work. We have updated our assessment during the final accounts audit and by regular meetings with senior management, continuing to review relevant documents including minutes of meetings up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

### **Significant qualitative aspects**

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

In arriving at our conclusion, our main considerations were:

- as in previous years, the Authority delivered an underspend position for 2015/16 with a year end outturn underspend of £941k. This was in line with the Authority's expectation for 2015/16 and represents 2.2% of turnover
- for 2016/17, the Authority approved its budget on 30 March 2016. Expenditure is budgeted at £42.0m after a 1.99% precept increase, and requiring savings of £900k, which management consider achievable and to be delivered mainly from the organisational review and non pay savings amounting to £792k. The budget aims to deliver a year end break even position
- considered the Authority's Medium Term Financial Plan covering the period 2016/17 to 2019/20 which incorporates the comprehensive spending review and the future financial challenges faced by the Authority
- the Authority's committee structures which enable a clear focus on the Authority's policies and monitoring of performance. The Authority has an effective strategic and financial planning process which includes rigorous review and challenge by members
- the progress being made by the Authority working with Cheshire Police on Blue Light Collaboration with a view to integrating back-office and professional services.

### **Overall conclusion**

Based on the work we performed to address the significant risks, we concluded that Cheshire Fire 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 B.

### **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.

### **Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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## Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

**04. Other statutory powers and duties**

05. Fees, non audit services and independence

06. Communication of audit matters



## Other statutory powers and duties

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

	<b>Issue</b>	<b>Commentary</b>
1.	<b>Public interest report</b>	<ul style="list-style-type: none"><li>• We have not identified any matters that would require a public interest report to be issued.</li></ul>
2.	<b>Written recommendations</b>	<ul style="list-style-type: none"><li>• We have not made any written recommendations that the Authority is required to respond to publicly.</li></ul>
3.	<b>Application to the court for a declaration that an item of account is contrary to law</b>	<ul style="list-style-type: none"><li>• We have not made any application to the court.</li></ul>
4.	<b>Issue of an advisory notice</b>	<ul style="list-style-type: none"><li>• We have not issued an advisory notice.</li></ul>
5.	<b>Application for judicial review</b>	<ul style="list-style-type: none"><li>• No application for a judicial review has been made.</li></ul>

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## Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

**05. Fees, non audit services and independence**

06. Communication of audit matters

We confirm below our final fees charged for the audit and provision of non-audit services.

### Fees

	Proposed fee £	Final fee £
Authority audit	29,860	29,860
<b>Total audit fees (excluding VAT)</b>	<b>29,860</b>	<b>29,860</b>

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

### Fees for other services

Service	Fees £
<b>Non-audit services:</b>	<b>4,643</b>
• 2020 Vision Workshop	
<b>Total</b>	<b>4,643</b>

### Independence and ethics

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

**06. Communication of audit matters**

# Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.a.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Authority's key risks when reaching our conclusions under the Code.

It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

# Appendix A: Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Authority should recognise fully its share in North West Fire Control, as a joint operation in accordance with IFRS 11.	M	We will consider incorporating all the Authority's share in North West Fire Control into the Authority's accounts from 2016/17 onwards. The Authority will also continue to liaise with the other three members of NWFC to ensure consistency of approach.	Head of Finance March 2017

# Appendix B: Audit opinion - draft

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESHIRE FIRE AUTHORITY**

We have audited the financial statements of Cheshire Fire Authority (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes. 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

### **Respective responsibilities of the Head of Finance and auditor**

As explained more fully in the Statement of the Head of Finance's Responsibilities, the Head of Finance 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

## **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

## **Matters on which we are required to report by exception**

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.



We have nothing to report in these respects.

**Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

**Respective responsibilities of the Authority and auditor**

The Authority is responsible for putting in place proper arrangements to secure 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.

We are required under Section 20(1)(c) of the Act 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.

**Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to 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. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

**Certificate**

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

and effective use of its resources.]

[Signature] – to be inserted

Robin Baker  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building  
Liverpool  
L3 1PS

[Date] – to be inserted



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