



# The Audit Findings for Cheshire Fire Authority

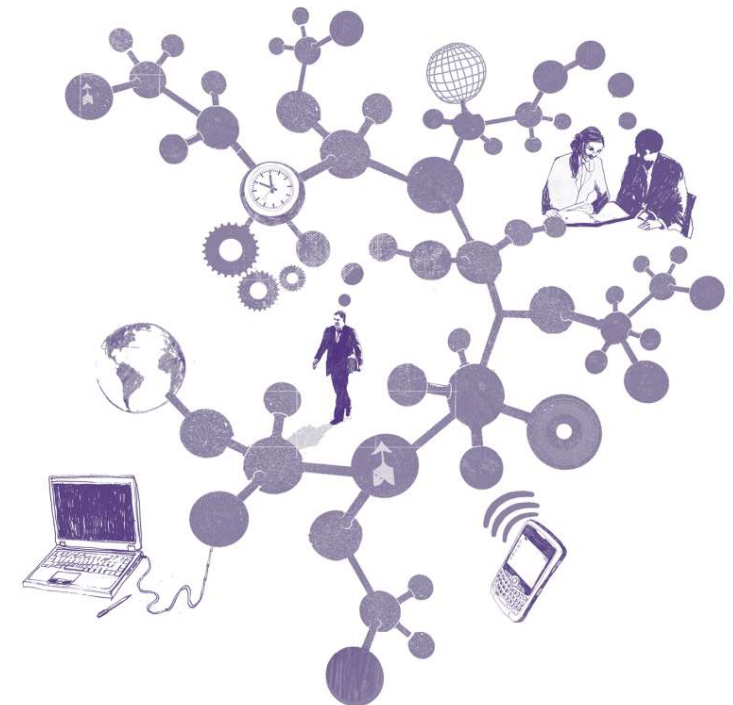
Year ended 31 March 2017

21 August 2017

**Robin Baker**  
Director  
T 0161 214 6399  
E [robin.j.baker@uk.gt.com](mailto:robin.j.baker@uk.gt.com)

**Perminder Sethi**  
Senior Manager  
T 0113 200 2547  
E [perminder.sethi@uk.gt.com](mailto:perminder.sethi@uk.gt.com)

**Siobhan Barnard**  
In-Charge Auditor  
T 0161 214 2407  
E [siobhan.barnard@uk.gt.com](mailto:siobhan.barnard@uk.gt.com)



Councillor Bob Rudd  
Chair Cheshire Fire Authority  
Cheshire Fire and Rescue Authority HQ  
Sadler Road  
Winsford  
CW7 2FQ

21 August 2017

Dear Councillor Rudd

Grant Thornton UK LLP  
4<sup>th</sup> Floor  
Royal Liver Buildings  
Liverpool  
L3 1PS

T 0161 214 6368  
[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

### **Audit Findings for Cheshire Fire Authority for the year ending 31 March 2017**

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Cheshire Fire Authority, the Authority itself), to oversee the financial reporting process, 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 auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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

Engagement lead

#### **Chartered Accountants**

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## **Appendices**

A Draft Audit Opinion

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# Section 1: Executive summary

**01. Executive summary**

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**05. Communication of audit matters**

## 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 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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 to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Authority acquired in the course of performing our audit; or otherwise misleading.

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'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. 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 year.

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 29 March 2017.

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

- obtaining requested external confirmations relating to investments,
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of the final Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion; and
- review of the Authority's Whole of Government Accounts return.

We received the draft financial statements and accompanying working papers at the commencement of our work, 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 2017 recorded total comprehensive income and expenditure of £54.247m. Our audit work on the financial statements has not altered this position. We have recommended a number of minor adjustments to improve the presentation and disclosure of the financial statements.

Last year, we raised the accounting treatment by the Authority of its 25 per cent share in North West Fire Control (NWFC), which is assessed as a joint operation. Whilst income and expenditure is included within the Authority's accounts, its share of assets and liabilities are excluded on the basis of not being material. IFRS 11 requires all income, expenditure, assets and liabilities to be included and reflected in the Authority's accounts. Following discussions during the year with the other three members of NWFC, officers again decided for 2016/17 not to account for the Authority's share of NWFC's assets and liabilities on the basis of materiality.

There is a need for the Authority to comply with accounting standards including International Financial Reporting Standards in preparing its accounts irrespective of materiality. In our view, the Authority's share of assets and liabilities should be reflected in the financial statements. We recommend the Authority incorporate all its share of NWFC into its accounts commencing 2017/18.

Further details are set out in section two of this report.

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 AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Authority's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

## 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 surplus being delivered in 2016/17 of £1.5m. The Authority approved its 2017/18 budget with a 1.99% precept increase which also included a savings requirement of £2.3m which management has identified will be delivered mainly through changes to the Authority's service delivery models. 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. We have not had to issue a Public interest report; make any written recommendations; apply to the court for a declaration that an item of account is contrary to law; issue an advisory notice or make an application for judicial review.

## 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.

## Acknowledgement

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

**Grant Thornton UK LLP**  
**21 August 2017**

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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 ISA (UK&I) 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 £724k (being 2% of gross revenue expenditure). We have revised this figure on receipt of the draft financial statements to £847k as a result of the increase in gross expenditure shown in the draft accounts.

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 £42k. This is an increase of £5k from the figure reported in our audit plan resulting from the increased gross revenue expenditure.

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 the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5k
Disclosure of related party transactions in the notes to the financial statements	Due to public interest in these disclosures.	£20k (Individual misstatements will also be evaluated with reference to how material they are to the other party).

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

# Audit findings against significant risks

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
<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>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</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>Therefore we do not consider this to be a significant risk for the Authority.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<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 undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Review of journal entry process, including a walkthrough of controls</li> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Selection of unusual journal entries for testing back to supporting documentation</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>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

## Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the Authority. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Valuation of property, plant and equipment</b></p> <p>The Authority re-values its assets on a rolling basis over a five year period. The Code requires that the Authority ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Reviewed management's processes and assumptions for the calculation of the estimate</li> <li>• Reviewed the competence, expertise and objectivity of any management experts used</li> <li>• Reviewed the instructions issued to valuation experts and the scope of their work</li> <li>• Discussed with the valuer the basis on which the valuation is carried out and challenged key assumptions</li> <li>• Reviewed and tested any revaluations made during the year to ensure they were input correctly to the asset register</li> <li>• Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>	<p>Work on property plant and equipment conducted to date has not highlighted any issues that we would wish to bring to your attention.</p> <p>Our work included testing a sample of 10 asset additions during the year to ensure that expenditure had been properly approved and correctly recorded. We also confirmed for a sample of 10 assets that ownership and legal title was in the name of the Authority by agreement to property deeds. No issues arose from our audit testing.</p>

# Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Valuation of pension fund net liability</b></p> <p>The Authority's pension fund asset and liability as reflected in its balance sheet represents a significant estimate in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. Assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement</li> <li>Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. Gained an understanding of the basis on which the valuation is carried out</li> <li>Procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>Reviewed the consistency of the pension fund asset and liability and disclosures in the 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>For LGPS and the two firefighter pension schemes we undertook a review of the relevant actuary's work to satisfy ourselves that the pension liabilities are fairly stated in the financial statements. In doing so we engaged our own independent actuary to assess the methodology and assumptions used by the schemes actuary.</p> <p>For LGPS we have confirmed with the LGPS external auditor that the controls over membership data were operating as intended. For the two firefighter schemes we have reviewed the information sent to the actuary ourselves and confirmed it was consistent with our expectations.</p> <p>For both LGPS and the firefighter pension schemes we have reviewed the assumptions used for each of these variables. Our own independent actuary has also confirmed that they are comfortable that the assumptions used by both Mercer and GAD are reasonable for the purpose of valuing the pension fund liabilities as at 31 March 2017.</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.

Risks identified in our plan	Work completed	Assurance gained & issues arising
<p><b>Operating Expenses</b></p> <p>Year end creditors and accruals are understated or not recorded in the correct period.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documentation of processes and controls</li> <li>• Evaluation and walkthrough of controls</li> <li>• Tested a sample of expenditure transactions for the year</li> <li>• Tested the year-end accrued expenditure</li> <li>• Tested a sample of payables at year-end</li> <li>• Completed 'cut-off' testing of expenditure recorded in the general ledger to test for understated and unrecorded liabilities.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Employee remuneration</b></p> <p>Employee remuneration accruals are understated.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documentation of the system and identification of controls and walkthrough test of the payroll system</li> <li>• Tested a sample of payroll transactions for the year</li> <li>• Substantive testing of significant year end payroll accruals</li> <li>• A trend analysis of pay by month to confirm there are no unusual fluctuations throughout the year</li> <li>• Testing of the reconciliation between the payroll system and the amounts recorded in the financial statements</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>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

# Audit findings against other risks continued

Risks identified in our plan	Work completed	Assurance gained & issues arising
<p><b>Fire Pensions Benefits Payable</b></p> <p>Benefits improperly computed / Claims liability understated.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documented the processes and controls in place in the pensions benefits system</li> <li>• Walkthrough testing to confirm the operation of controls is in line with our understanding</li> <li>• Scanned and identified unusual items or unusual variations in the payments made</li> <li>• Compared the total pensioner payroll with comparative figures and rationalised these by reference to the changes to the expected value (e.g. pension increases, new pensioners, deaths)</li> <li>• Substantive testing of pension benefit payments made in the year.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Fire Pensions Contributions Receivable</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 management's processes and controls for deduction of employee and employer deductions</li> <li>• Substantively tested a sample of payroll deductions 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>

# Audit findings against other risks continued

Risks identified in our plan	Work completed	Assurance gained & issues arising
<p><b>Changes to the presentation of local authority financial statements</b></p> <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documented and evaluated the process for recording the required financial reporting changes to the 2016/17 financial statements</li> <li>• Reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure</li> <li>• Reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)</li> <li>• Tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES</li> <li>• Tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger</li> <li>• Tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements</li> <li>• Reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>	<p>Our audit work has identified that the required presentational changes have generally been appropriately made.</p> <p>For fullest compliance with the Code, we requested that the new Expenditure and Funding Analysis be presented as a note to the accounts, rather than as a primary statement. Following discussions, officers have renamed the Expenditure and Funding Analysis as a note.</p>

# Significant matters discussed with management

	Significant matter	Commentary
1.	<p>Discussions or correspondence with management regarding accounting practices, the application of auditing standards, or fees for audit or other services.</p>	<p>Last year, we raised the accounting treatment by the Authority of its 25 per cent share in North West Fire Control (NWFC), a joint operation. Whilst income and expenditure is included within the Authority's accounts, its share of assets and liabilities are excluded on the basis of not being material. IFRS 11 requires all income, expenditure, assets and liabilities to be included.</p> <p>We discussed with management the arrangements and the related accounting treatment of Cheshire Fire Authority's share (25%) of North West Fire Control's balances. We are satisfied that management has demonstrated that it is appropriate to treat this arrangement as a joint operation.</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:</p> <ul style="list-style-type: none"> <li>• its assets, including its share of any assets held jointly;</li> <li>• its liabilities, including its share of any liabilities incurred jointly;</li> <li>• its revenue from the sale of its share of the output arising from the joint operation;</li> <li>• its share of the revenue from the sale of the output by the joint operations; and</li> <li>• its expenses, including its share of any expenses incurred jointly.</li> </ul> <p>Management has determined that Cheshire Fire Authority's share of NWFC assets, liabilities and operating revenues and expenses are not again material for 2016/17. 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. Whilst they are not material they should be reflected in the Authority's financial statements.</p> <p>There is a need for the Authority to comply with accounting standards including International Financial Reporting Standards in preparing its accounts irrespective of materiality. We recommend the Authority incorporate all its share of NWFC into its accounts going forward.</p> <p><b>Management response</b></p> <p>Noted. Cheshire Fire will liaise with the other partners in NWFC along with their auditors and Grant Thornton to discuss the reporting requirements in preparation for the 2017/18 accounts.</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
<p><b>Revenue recognition</b></p>	<ul style="list-style-type: none"> <li>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</li> <li>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</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>The Authority's accounting policy is appropriate under IAS 18 Revenue and CIPFA's Code of Practice on Local Government Accounting 2016-17</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>We are satisfied that the Authority has recognised income in accordance with its accounting policies</li> <li>Revenue recognition policies are appropriately disclosed.</li> </ul>	<p style="text-align: center;">● Green</p>
<p><b>Going concern</b></p>	<p>The Head of Finance 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 2016/17 financial statements.</p>	<p style="text-align: center;">● Green</p>

**Assessment**

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements and estimates</b>	Key estimates and judgements include: <ul style="list-style-type: none"> <li>• Pension fund valuations and settlements</li> <li>• Asset revaluations, depreciation and impairments</li> <li>• Provisions and accruals, including business rate appeals and bad debt provisions</li> <li>• Fair value of financial instruments.</li> </ul>	<ul style="list-style-type: none"> <li>• The Authority's policies on estimates and judgements are reasonable and appropriately disclosed</li> <li>• The Authority has appropriately relied on the work of experts for asset revaluations, pension fund valuations, insurance provisions, and financial instrument fair values.</li> </ul>	 <b>Green</b>
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice.	The Authority's accounting policies are appropriate and consistent with previous years.	 <b>Green</b>

**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 the Head of Finance and Members and the work to address this. We have not been made aware of any incidents of fraud 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 which is included in the Authority meeting papers.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests for bank balances, loans and investments. This permission was granted and the requests were sent to a number of institutions. We have now received all confirmations except in relation to investments from Goldman Sachs which are still awaited.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements. For fullest compliance with the Code of Practice, we requested that the new Expenditure and Funding Analysis be presented as a note to the accounts, rather than as a primary statement.</li> </ul>

## Other communication requirements continued

	Issue	Commentary
7.	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>• 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:</li> <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>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>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.</p> <ul style="list-style-type: none"> <li>• Note – this work is not required as the Authority does not exceed the threshold.</li> </ul>

## Adjusted misstatements

There have been no adjustments made to the draft accounts.

## Unadjusted misstatements

There are no unadjusted misstatements.

## 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	N/A	Expenditure and Funding Analysis	A presentational change to show the Expenditure and Funding Analysis as a Note to the accounts in accordance with the Code.
2 Disclosure	N/A	N/A	Various minor disclosure changes.
3 Disclosure	N/A	Exit Packages	An amendment to note 23 and note 24 to include Payment in Lieu of Notice (PILON) costs in line with the Code. Reported termination costs of £121,630 changed to £138,257.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non-audit services and independence

05. 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 2016. AGN 03 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.*

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 March 2017 based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Authority, including work performed in previous years in respect of the VFM conclusion and the opinion on the financial statements
- the findings of other inspectorates and review agencies
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information
- any other evidence which we considered necessary to conclude on your arrangements.

We did not identify any significant risks from our initial risk assessment. We did however recognise that the Authority continues to face significant on-going financial challenges. Our assessment of risk is balanced by the fact that we consider the Authority has effective arrangements in place to manage its finances.

The Authority set a balanced budget for 2016/17 which formed the first year of the Medium Term Financial Strategy (MTFS) for the 4 year period to 2019/20.

The actual 2016/17 outturn position was an underspend of £1.5m against a revised budget of £42.03m, increasing the Authority's general reserves to £7.99m at the year end. The main reasons for the underspend were lower than anticipated pay costs, unutilised contingencies and business rate income received. The Authority is keen to use any underspend to help support the changes needed to the Authority's service delivery models.

During the year, the Authority also spent £13.1m on capital (non current assets), with the main areas of spend relating to the build of two new fire stations at Powey Lane, Mollington, and Penketh, and the on-going construction costs of Lymm Fire Station and Safety Central totalling some £9.9m, fire appliances and hydraulic platforms (£2.2m) and other vehicles and operational equipment (£0.95m). During 2017/18 the Authority will open the new Lymm Fire Station and Safety Central which includes interactive hi-tech learning zones designed to simulate the most common avoidable harms in the community.

The Authority continues to respond to meeting the challenges of Blue Light Collaboration with Cheshire Police to integrate back-office and professional services. The arrangements for closer working are overseen by the Blue Light Collaboration Board. The Authority agreed previously to co-locate its headquarters to the current Police headquarters at Clemonds Hey to foster closer working arrangements as well as generate financial efficiencies for both organisations. The transition to the Police headquarters has commenced and is expected to be completed during the autumn of 2017. The provision of joint support services to both Fire and Police has also commenced with IT services now being delivered jointly. The remaining services will transfer to joint provision during 2017/18.

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.



### **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 2016/17 with a year end outturn underspend of £1.5m. This was in line with the Authority's expectation for 2016/17 and represents 3.6% of turnover
- For 2017/18, the Authority approved its budget in February 2017. The Authority set a budget of £41.3m. The budget aims to deliver a year end break even position. The budget requires savings of £2.3m which management consider will be delivered mainly through changes to the Authority's service delivery models
- 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 needs to deliver some £4.0m in savings between 2016/17 and 2019/20 of which £2.3m relate to 2017/18. The Authority aims to achieve these savings through changes to its service delivery models. Whilst the Authority consider these savings challenging, they believe they are achievable
- The Authority's committee structures which enables 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 Authority invited earlier in the year the Cheshire Police and Crime Commissioner to join the Fire Authority as a member. This should help develop further integration between the Fire Authority and Police
- 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. The transition to the Police headquarters has commenced and is expected to be completed during the autumn of 2017. The provision of joint support services to both Fire and Police has also started with IT services now being delivered jointly. The remaining services will transfer to joint provision during 2017/18.

### **Overall conclusion**

Based on the work we performed to address the risks identified, 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: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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

### Fees 2016/17

	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).

### Independence and ethics

Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence. In this context, we disclose the following to you:

- 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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. We can confirm that no non-audit services were identified.

# Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Authority's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees £	Threat?	Safeguard
<b>Audit related services</b>				
	The Authority does not have any subsidiary or other companies where we have provided audit related services.	N/A		
<b>Non-audit services</b>				
	We have not provided any non-audit services to the Authority or other related subsidiary or companies.	N/A		
	<b>TOTAL</b>	N/A		

The above non-audit services are consistent with the Authority's policy on the allotment of non-audit work to your auditor.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

**05. Communication of audit matters**

# Communication to those charged with governance

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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.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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

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# Appendices

## A. Draft Audit Opinion

# A: Draft Audit opinion

**We anticipate we will provide Cheshire Fire 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 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in reserves 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 2016/17.

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 Authority's members those matters we are required to state 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 Treasurer and auditor**

As explained more fully in the Statement of Responsibilities, 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 Treasurer; 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 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 for the financial year for which the financial statements are prepared 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: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act 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 Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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



**Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources**

**Respective responsibilities of the Authority and auditor**

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.

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 for securing economy, efficiency and effectiveness in its use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 this criteria 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 2017.

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 form a view on whether in all significant respects the Authority has put in place proper 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 criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of its resources for the year ended 31 March 2017.

Certificate

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

[Signature]

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

4TH Floor  
Royal Liver Building  
Liverpool  
L3 1PS

xx September 2017



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