

Annual Audit Letter

Year ending 31 March 2018

Cheshire Fire Authority
28 August 2018



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Your key Grant Thornton
team members are:

Andy Smith

Engagement Lead

T: 0161 953 6472

E: andrew.j.smith@uk.gt.com

Gerard Small

Engagement Manager

T: 0161 214 6372

E: ged.w.small@uk.gt.com

Stuart Richardson

In-charge Auditor

T: 0161 214 6388

E: stuart.j.richardson@uk.gt.com

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Cheshire Fire Authority (the Authority) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Authority and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Authority as those charged with governance in our Audit Findings Report on 18th July 2018.

Our work

Materiality	We determined materiality for the audit of the Authority's financial statements to be £801,000, which is 2% of the Authority's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Authority's financial statements on 30 th July 2018.
Whole of Government Accounts	We were not required to complete any work on the Authority's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Authority on 30 th July 2018.
Certificate	We certify that we have completed the audit of the accounts of Cheshire Fire Authority in accordance with the requirements of the Code of Audit Practice.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Authority's financial statements (section two)
- assess the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Authority's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Audit of the Accounts

Materiality

In our audit of the Authority's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Authority accounts to be £801,000, which is 2% of the Authority's gross revenue expenditure. We used this benchmark as, in our view, users of the Authority's financial statements are most interested in where the Authority has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration and termination benefits of £20,000 to reflect the sensitivity of these disclosures to public scrutiny.

We set a threshold of £40,000, above which we reported all other errors to the Authority in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts, the narrative report, and the annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Authority and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition</p> <p>Under ISA 240 (UK) 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>As part of our audit work we have:</p> <ul style="list-style-type: none">• considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:• there is little incentive to manipulate revenue recognition• opportunities to manipulate revenue recognition are very limited• The culture and ethical frameworks of local authorities, including Cheshire Fire Authority, mean that all forms of fraud are seen as unacceptable.	<p>We did not consider this to be a significant risk for Cheshire Fire Authority.</p>
<p>Management override of controls</p> <p>Under ISA 240 (UK) there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none">• reviewed accounting estimates, judgements and decisions made by management• tested journal entries• looked to identify unusual significant transactions• reviewed of significant related party transactions and considered whether they fall outside the normal course of business	<p>Our audit work did not identify any issues in respect of management override of controls.</p>

Audit of the Accounts

Significant Audit Risks *(continued)*

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment</p> <p>The Authority revalues its land and buildings on a five-yearly basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>To address this we:</p> <ul style="list-style-type: none">• reviewed management's processes and assumptions for the calculation of the estimate.• reviewed the competence, expertise and objectivity of any management experts used.• reviewed the instructions issued to valuation experts and the scope of their work.• discussed with the Authority's valuer about the basis on which the valuation was carried out, challenging the key assumptions.• reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.• tested revaluations made during the year to ensure they were input correctly into the Authority's asset register.• evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.	<p>The Authority commissioned a review of its asset portfolio values and adjusted where there was a material difference between gross book value and the current value as determined by the valuer.</p> <p>The CIPFA Code requires authorities to compare carrying value, i.e. net book value, against the current value at each reporting date. When applying this criteria further revaluations needed to be recognised.</p> <p>This resulted in an increase to asset values of £2.044 million and a corresponding increase to the revaluation reserve. There was no impact on the general fund as a result of these changes.</p>

Audit of the Accounts

Significant Audit Risks *(continued)*

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Local Government Pension Scheme (LGPS) pension net liability as reflected in the balance sheet, and asset and liability information disclosed in the notes to the accounts, represent significant estimates in the financial statements.</p> <p>The Firefighters Pension schemes pension fund liability as reflected in the balance sheet and notes to the accounts represent significant estimates in the financial statements.</p> <p>These estimates by their nature are subject to significant estimation uncertainty, being sensitive to small adjustments in the assumptions used.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>To address this we:</p> <ul style="list-style-type: none">• identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.• reviewed the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation.• gained 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.• reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.	<p>Our audit work did not identify any issues in respect of the pensions liability.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Authority's financial statements on 30th July 2018, in advance of the national deadline.

Preparation of the accounts

The Authority presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Authority on 18th July 2018.

In addition to the key audit risks reported above, we identified errors within two of the notes to the financial statements which management agreed to adjust. These were to reanalyse the details of income and expenditure by nature to be consistent with the Comprehensive income and Expenditure Statement and to correct omissions from the banding analysis of senior officers remuneration.

The Authority could have made more detailed disclosures in relation to the fair value of its loan portfolio, however this would not have made a material difference to the figures disclosed and did not affect the amounts at which the loans are carried in the balance sheet. We agreed with management that the disclosure would not be amended.

The Authority does not account directly for its share of the assets and liabilities of North West Fire Control (NWFC) although it does account for its income and expenditure during the year. The impact on the balance sheet was not material either in aggregate or on an line by line basis. We agreed with management that the balance sheet would not be amended.

Annual Governance Statement and Narrative Report

We are required to review the Authority's Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Authority and with our knowledge of the Authority.

The Annual Governance Statement was not published alongside the Financial Statements and Narrative at the start of the period for the exercise of electors rights. In this respect we believe the Authority has not complied fully with the Accounts and Audit Regulations 2015.

We recommended the Authority amend its timetables to ensure the Annual Governance Statement, Financial Statements and Narrative report are published together. The Authority agreed to this. Our recommendation is set out in appendix B.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Authority's accounts and to raise objections received in relation to the accounts.

Nothing has arisen that led to us exercising our other statutory powers.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Cheshire Fire Authority in accordance with the requirements of the Code of Audit Practice.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability</p> <p>The Authority is operating against a background of:</p> <ul style="list-style-type: none"> • Funding reductions • Changes in the legislative and policy requirements • Changes to the regulatory bodies and frameworks <p>At the same time it is planning to maintain council tax rises at less than 2% and fund its capital programme from reserves. To achieve this the Authority will need to exercise strong financial discipline.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> • reviewed the Authority's arrangements for budgeting and for monitoring and reporting financial performance. • examined evidence in the form of Authority agenda and Meeting papers, and Published Policy documents such as the Efficiency Plan and Integrated Risk Management Plan. • held discussions with officers and reviewed internal documents such as working drafts of the Medium Term Financial Plan. • critically reviewed out-turn performance against budget. 	<p>We found:</p> <ul style="list-style-type: none"> • The Medium Term Financial Plan is soundly based and is driven by the needs identified in the Integrated Risk Management Plan, balanced against the need for savings identified in the Efficiency Plan. • Planned spend on services was £40,018k actual spend in the year was £41,620k. • £2,226K of current year expenditure was planned to be funded from reserves. • There has been a mix of over and underspends, with some over spends the result of changed circumstances, for example the response Grenfell Tower and the changes crewing at to Crewe and Ellesmere Port stations. • Savings have been achieved in part through planned efficiencies and in part through identifying savings opportunities as they arise such managing vacancies. • The Authority has identified that the rates available for suitably secure investments are low and is utilising cash balances for capital projects while maintaining adequate resources to meet day to day liabilities. • The changing nature of the work Fire and Rescue Authorities are expected to undertake will lead to challenges but can contribute to overall efficiency. <p>Conclusion</p> <ul style="list-style-type: none"> • The Authority has in place proper arrangements to manage the identified risk and therefore had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

A. Reports issued and fees

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

Report issued	Date issued
Audit Plan	March 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees issued	Planned	Actual fees	2016/17 fees
	£	£	£
Statutory audit	29,860	29,860	29,860
Total fees	29,860	29,860	29,860

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

Non- audit services

No non-audit services were provided by Grant Thornton UK LLP to the Authority during the year ended 31 March 2018.

Working with the Authority

During the year we have delivered a number of successful outcomes with you:

- an efficient audit – we worked with officers during the year to ensure the earlier accounts preparation and audit deadlines were achieved. We also completed the bulk of our audit fieldwork during June 2018 in accordance with the timetable agreed with Officers
- providing training – we provided your teams with training on financial accounts and annual reporting.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Authority's staff.



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