



# The Annual Audit Letter for Cheshire Fire Authority

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**Year ended 31 March 2019**

**28 August 2019**



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## Your key Grant Thornton team members are:

John Farrar

Key Audit Partner

T: 07880 456200

E: John.Farrar@uk.gt.com

Gerard Small

Manager

T: 07880 456170

E: Ged.W.Small@uk.gt.com

Stuart Richardson

In Charge Auditor

T: 07918 367250

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 2019.

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 19 July 2019.

## Our work

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<b>Materiality</b>	We determined materiality for the audit of the Authority's financial statements to be £736,000, which is 2% of the Authority's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Authority's financial statements on 30 July 2019.
<b>Whole of Government Accounts (WGA)</b>	We were not required to complete any work on the Authority's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.

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## 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.

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# Executive Summary

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**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 July 2019.

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**Certificate** We certified that we have completed the audit of the financial statements of Cheshire Fire Authority in accordance with the requirements of the Code of Audit Practice on 30 July 2019.

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# Audit of the Financial Statements

## Our audit approach

### 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's financial statements to be £736,000, 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 related party transactions of £100,000 to reflect the sensitivity of these disclosures to public scrutiny.

We set a lower threshold of £36,000, above which we reported all other errors identified during the audit 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 financial statements, the narrative report and the annual governance statement published alongside the financial statements to check they were 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 obtained sufficient and appropriate to provide a basis for our opinion.

Our audit approach was 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 Financial Statements

## 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><b>Valuation of land and buildings</b></p> <p>This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"><li>• We evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work.</li><li>• We evaluated the competence, capabilities and objectivity of the valuation expert.</li><li>• We wrote to the valuer and confirmed the basis on which the valuation was carried and the requirements of the Code were met.</li><li>• We challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding.</li><li>• We tested revaluations made during the year to see if they had been input correctly into the Authority's asset register.</li></ul>	<p>The valuations were prepared using information provided by the Authority. The latest and most appropriate information was used. The valuer took into consideration whether there were specific factors relevant to individual assets. Management reviewed the output and considered its appropriateness for use in the financial statements. The resulting changes in value were agreed to the fixed asset register and the financial statements.</p>

# Audit of the Financial Statements

## 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><b>Valuation of pension fund net liability</b>            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>	<ul style="list-style-type: none"> <li>• We updated our understanding of the processes used by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls.</li> <li>• We evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work.</li> <li>• We assessed the competence, capabilities and objectivity of the actuary.</li> <li>• We assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability.</li> <li>• We tested the consistency of the pension fund asset and liability disclosures in the notes and core financial statements with the actuarial report from the actuary.</li> <li>• We confirmed the reasonableness of the actuarial assumptions by reviewing the report of a consulting actuary (as the auditor's expert) and performed additional procedures suggested within the report.</li> <li>• We obtained assurances from the auditor of Cheshire Pension Fund and the Firefighters Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>	<p>We obtained the necessary assurance from the procedures we carried out and concluded that the pension fund liability as included in the financial statements was materially correct.</p> <p>See page 9 for further information on the pension fund liability and the McCloud case.</p>

# Audit of the Financial Statements

## Significant Audit Risks - continued

These are the 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><b>Improper revenue recognition</b> Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>The 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 planning we considered the nature of the Authority's income streams and the scope and incentive for misstatement. We concluded that no scope or incentive for misstatement was present and the presumption could be rebutted.</p>	<p>There have been no changes to our reported assessment.</p>
<p><b>Management override of controls</b> Under ISA 240 (UK) there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> <li>• We evaluated the design effectiveness of management controls over journals.</li> <li>• We analysed the journals listing and determined the criteria for selecting high risk unusual journals.</li> <li>• Based on that criteria we tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroborating evidence.</li> <li>• We gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness against corroborative evidence.</li> <li>• We evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>Our testing identified no concerns over the control or use of journals. Where management made use of estimates it did so on an objective and reasonable basis, for example having had due regard to the advice of its expert advisors. Accounting policy changes were only to comply with new accounting standards and updates to the Code.</p> <p>Our audit work identified no evidence of management override of controls.</p>

# Audit of the Financial Statements

## Significant Audit Risks - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year

Issue	Commentary	Findings and conclusions
<p><b>Impact of the McCloud judgement</b></p> <p>The Court of Appeal ruled there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but the permission to appeal was denied in June 2019. The case will now be sent back to the Employment tribunal for remedy.</p> <p>The legal ruling around age discrimination has implications for other public sector schemes where transition arrangements have been put in place, such as the Local Government Pension Scheme and the Fire Fighter Pension Scheme.</p>	<ul style="list-style-type: none"> <li>• Management requested updated estimates from the actuary of the potential impact of the McCloud ruling. These were received from Hymans Robertson for both Firefighters and LGPS and indicated an increase in past service costs of £22,400k re Firefighters, and £210k re the LGPS, and increase the net pension liability of £25,400k re Firefighters and £1,347k re the LGPS.</li> <li>• The accounts were amended to reflect this change.</li> </ul>	<p>We completed a review of the work performed by the actuary and concluded the estimates were reasonable. We confirmed appropriate changes were made to the financial statements.</p>

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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Authority's financial statements on 30 July 2019.

## **Preparation of the financial statements**

The Authority presented us with draft financial statements 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 financial statements**

We reported the key issues from our audit to the Authority on 19 July 2019. In addition to the key audit risks reported above, we agreed with management a small number of changes to the narrative disclosures to enhance readers' understanding of issues explained in the notes.

## **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.

## **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 requiring us to exercise our other statutory powers.

## **Certificate of closure of the audit**

We certified that we have completed the audit of the financial statements of Cheshire Fire Authority in accordance with the requirements of the Code of Audit Practice on 30 July 2019.

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# 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 risks where we concentrated our work.

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

As part of our Audit Findings report agreed with the Authority in July 2019, we agreed recommendations to address our findings.

## **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 2019.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the Code requirements	Findings and conclusions
<p>AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.</p> <p>We did not identify any significant risks in relation to the Authority's arrangements</p>	<ul style="list-style-type: none"> <li>• We confirmed the Authority has maintained its track record of delivering its budgets: In February 2018 the Authority approved a budget of £42.5m against which it has delivered an underspend of £721k.</li> <li>• We confirmed that Financial reporting throughout the year demonstrated that budgets were being achieved and reasonable outturn forecasts were being prepared.</li> <li>• We confirmed that The Medium Term Financial Plan was updated to 2022 alongside the 2020 annual budget.</li> <li>• The Authority has a total savings requirement to 2022 of £3.9m, of which £1.36m will be met from savings proposals for 2019/20.</li> </ul>	<p>The Authority has healthy reserves position with an earmarked Capital Reserve of £14.8m to support the capital programme up to March 2022 which stands at £30m. The Authority has a Resource Centre Managers reserve of £13.5m to meet locally identified needs.</p> <p>Based on the work we performed, we are satisfied that the Authority had proper arrangements for securing economy, efficiency and effectiveness in the use of resources.</p>

# A. Reports issued and fees

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

## Reports issued

Report	Date issued
Audit Plan	March 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

## Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	22,992	*27,492(tbc)	29,860
<b>Total fees</b>	<b>22,992</b>	<b>*27,492(tbc)</b>	<b>29,860</b>

## Audit fee variation

\* As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £22,992 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Fee variations are subject to PSAA approval

## Non- audit services

No non-audit services were provided by Grant Thornton UK LLP to the Authority during the year ended 31 March 2019.

Area	Reason	Fee proposed
<b>Assessing the impact of the McCloud ruling</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.  This was highlighted to Members in our Audit Findings report in July.	1,500
<b>Pensions – IAS 19</b>	We increased the level of scope and coverage of audit work in respect of IAS 19 this year to reflect the significant audit risks in relation to this aspect of the Authority's financial statements.	1,500
<b>PPE Valuation – work of experts</b>	We have increased the volume and scope of our audit work in respect of PPE valuations to reflect the significant audit risks in relation to this aspect of the Authority's financial statements.	1,500
<b>Total</b>		<b>4,500</b>

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

## Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

## New opportunities and challenges for your community

### The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

## Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

## Grant Thornton in Local Government

### Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

### Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

### Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

### Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQR

### Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies



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