Grant Thornton

The Audit Findings for Cheshire Fire Authority

Year ended 31 March 2020

7 October 2020

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Cheshire Fire Authority Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and 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 Authority's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Fire Fighter Pension Fund Account, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed remotely during July, August and September . Our findings are summarised on pages 6 to 15. We have identified one material change to the financial statements. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix B. Our work is substantially complete, however at the time of drafting this report there was one issue affecting the pensions liability for which we had not been able to obtain assurance. • We are awaiting information from the auditor of Cheshire Pension Fund on aspects of the pension fund asset values, on which we will need to complete audit procedures before we can confirm we have obtained adequate assurance over the pension liability. Subject to resolving the matters described above at the point of drafting this report there were no matters of which we are aware that would require modification of our audit opinion Appendix D or material changes to the financial statements, subject to the following outstanding matters; • receiving adequate assurance from the work of the Cheshire Pension Fund Auditor, • final reviews of the audit file and completion of responses to review queries, • receipt of management representation letter; and • review of the final set of financial statements. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting the inclusion of material uncertainties in respect of the valuation of material land and buildings.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Cheshire Fire Authority Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Authority . Front line staff have undertaken additional work such as

- Delivering prescription medicines to vulnerable residents.
- Transporting blood and tissue samples.
- Transporting food parcels.
- Distributing personal protection equipment to health and care colleagues.

There have significant changes to the way other function operate as telephone consultations for businesses need help with protection and compliance matters remote working for most back-office and virtual meetings of the Authority Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.

Our Audit Plan issued in April 2020 included a significant financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.

Restrictions for non-essential travel has meant both Authority and audit staff have had to adapt to new remote access working arrangements for example remote accessing financial systems, video calling, photographic verification of assets and confirming completeness accuracy of information produced by the authority by live streaming the production of reports. Draft financial statements were provided to us on 6 July and these were confirmed as the unaudited statement of accounts following the Performance and Overview Committee virtual meeting on 22 July.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Cheshire Fire Authority Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk-based review of the Authority's value for money arrangements. We have concluded that Cheshire Fire Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19 We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 16 and 17.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and plan to issue our completion certificate alongside our opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the Authority's internal controls environment, including its IT systems and controls.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

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

- receiving adequate assurance from the work of the Cheshire Pension Fund Auditor,
- final reviews of the audit file and completion of responses to review queries,
- receipt of management representation letter; and
- review of the final set of financial statements.

Our approach to materiality

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

In our audit plan we determined material based last year's reported gross expenditure, normalised to take account of the impact of the McCloud case on pension charges. On receipt of the unaudited financial statements we revised materiality to better reflect the values included in the financial statements. We have kept gross expenditure as our benchmark and the revised materiality represents 2% of that figure, this proportion is unchanged.

	Planning Amount (£)	Revised Amount (£)	Qualitative factors considered
Materiality for the financial statements	739k	851k	Gross expenditure is considered an appropriate benchmark for public sector organisations because their purpose is to deploy resources to provide public services.
Performance materiality	517k	595k	This is based on 70% of financial statement materiality.
Trivial matters	37k	42k	This is based on 5% on financial statement materiality.
Materiality for senior officer remuneration	5k	5k	A Lower level has been set because for these items due to public interest in these figures.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • Remote working arrangements and redeployment of staff to critical front-line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 6 July 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Authority's property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment. As documented on page 8 we expect to reference in our audit report, an emphasis of matter in relation to material uncertainties in the valuation of land and buildings. We have not identified any further material uncertainties in relation to Covid-19 that would result in a material misstatement in the financial statements.
ISA240 revenue recognition risk Under ISA 240 (UK) there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. The presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	As set out in our audit plan issued in April 2020 we do not consider this to be a significant risk for the Authority. We have made no change to our risk assessment in this area. We therefore continue to rebut this risk on the basis that: • there is little incentive to manipulate revenue recognition. • opportunities to manipulate revenue recognition are very limited as some 94% of the Authority's gross income is from taxation or government grant. • the culture and ethical frameworks of local authorities, including Cheshire Fire and Rescue Authority, mean that all forms of fraud are seen as unacceptable.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Management override of controls Under ISA 240 (UK) there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our work has included; • evaluating the design effectiveness of management controls over journals. • analysing journals, determine the criteria for selecting high risk unusual journals and identifying and selecting journals with unusual narrative. • testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any changes to accounting policy or practise. Our audit work has not identified any issues in respect of management override of controls.
Valuation of Property, Plant and Equipment (Land and Buildings) The Authority revalues its land and buildings on a five-yearly basis. In the intervening years, such as 2019/20, to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, the Authority requests a desktop valuation from its valuation expert to ensure that there is no material difference. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement,. Since we issued our audit plan, we became aware that RICs were referring members to VPS 3 and VPGA 10 of the RICS Red Book and the impact Covid-19 outbreak on market activity. In response valuers have reported on the basis of material valuation uncertainty, noting a higher degree of caution should be attached to their valuations than is normally the case.	Our work has included; • evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work, • evaluating the competence, capabilities and objectivity of the valuation expert, • engaging with the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met, • challenging the valuer on the information and assumptions used to assess completeness and consistency with our understanding, including information we obtained independently on property and building cost trends. • testing a sample of the revaluations made during the year to confirm that they properly incorporate the information and assumptions described above and that the assumptions are relevant to the individual assets, • testing revaluations made during the year to see if they had been input correctly into the Authority's asset register. We found that land values included in the financial statements had increased more than had been expected based on national trends however, we obtained appropriate assurance over the local property market to support that change. The valuation of operational buildings is based on their estimated Depreciation replacement Cost. The Authority uses the work of experts to help determine these values. We reviewed their methods and calculation and corroborated build costs rates used to independent sources. The draft financial statements did not include reference to the material valuation uncertainty. Management have subsequently amended the financial statements to include reference to this, in line with the report of the valuer. We consider this disclosure to be fundamental to a reader’s ability to understand the financial statements and we will draw attention to it in our audit report as an Emphasis of Matter, this does not modify our opinion on the financial statements, see Appendix D. At the time of writing, our work in this area is subject to final review but has not identified any further issues in respect of valuation of land and buildings to report to you.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability The Local Government Pension Scheme (LGPS) pension net liability as reflected in the balance sheet, and asset and liability information disclosed in the notes to the accounts, represent a significant estimate in the financial statements. The Firefighters Pension schemes pension fund liability as reflected in the balance sheet and notes to the accounts represent significant estimates in the financial statements. These estimates by their nature are subject to significant estimation uncertainty being sensitive to small adjustments in the key assumptions used. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our work has included; • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as the auditor's expert) and performing any additional procedures suggested within the report; • requested assurances from the auditor of Cheshire 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 Cheshire Pension Fund financial statements, and • tested. the data provided to the actuary of the Fire Fighter Pension Fund. At the time of drafting this report we are to receive the information we requested from the Cheshire Pension Fund auditor and are concluding our procedures in respect of the overall pension net liability. We have been made aware that the Pension Fund Auditor is to include an emphasis of matter in his report drawing attention to a material valuation uncertainty relating to the Fund's real estate portfolio. The Authority's share of the Pension Fund assets is £42.9m of which £3.5m, or 8.15% is real estate. We will need to consider if there are any reporting impacts in this area following receipt of communications from the pension fund auditor. Following the publication of the proposed McCloud remedy in July, the Authority were advised by the actuary that this could have an impact on the pension liability. The Authority requested updated IAS 19 valuations in order to quantify the impact. Following receipt of updated valuations, it was determined that the impact would be a material reduction in the firefighter scheme liability of £2.3m and a smaller reduction of £69k in respect of the local government pension scheme. Management have adjusted the financial statements in respect of these movements given the overall impact is material. We are currently awaiting technical guidance to confirm that this is appropriate. We anticipate being in a position to update verbally on this matter in presenting our audit findings.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – £66.2m	Land and buildings comprise: £41.8m of specialised assets valued on a DRC basis £3.3m of non-operational buildings valued on an existing use business £9.2m of residential property valued on a market basis £11.8m of land valued on a market basis. Depreciated replacement cost (DRC), reflects the cost of a modern equivalent asset necessary to deliver the same service provision. The Authority has engaged a valuer to complete the valuation of properties as at 31 March 2020. In line with RICS guidance, the Authority's valuer disclosed a material uncertainty in the valuation of the Authority's land and buildings at 31 March 2020 as a result of Covid-19. The Authority has included disclosures on this issue in Note 4. The valuation of properties valued by the valuer has resulted in a net increase/decrease of £4.15m. All properties were re-valued.	Management's expert is a professional valuer and Registered Member of the RICs and has undertaken valuation work for the Authority for a number of years. He has a good knowledge of the Authority's estate and of the property market in Cheshire. Market values prepared by the value are evidenced with market data. He draws on the work of a Building Consultant to inform his determination of the depreciated replace cost. Information provided to the valuer has been verified for completeness and accuracy. There were no changes in methods used by the valuer. We compared the work of the valuer to information provided by an auditor's experts Gerald Eve. This included challenging the Building Consultant over the basis of his calculations. We obtained explanations and have been able to corroborate these to other sources of evidence. Information about the valuation and the relevant accounting has been adequately disclosed in the financial statements. Overall, we are satisfied the Authority's land and buildings are not materially misstated. Accounting policies are adequately disclosed and the material uncertainty is appropriately disclosed. As noted on page 8, we draw attention to the material uncertainty in an emphasis of matter within our draft audit report as included in Appendix D.	● Green

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £523m	The Authority's net pension liability at 31 March 2020 is £523m (PY £591m) comprising the Cheshire Local Government Pension Scheme, a funded defined benefit scheme, and The Cheshire Fire Fighters Pension Find an unfunded defined benefit pension scheme. The Authority uses Hymans Robertson to provide actuarial valuations of the Authority's assets and liabilities derived from (this scheme/these schemes). A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £77m net actuarial gain during 2019/20.	See table and commentary below	Green

Assumption	Actuary Value LG	Actuary Value Firefighters	PwC range	Assessment
Discount rate	2.3%	2.3%	1.8%-2.4%	
Pension increase rate	1.9%	1.9%	1.9% - 2.1%	
Salary growth	2.6%	2.8%	1.25% – 4.1%	
Life expectancy – Males currently aged 45 / 65	21.9	27.5	20.8 – 27.7	
Life expectancy – Females currently aged 45 / 65	25	29.7	23- 27.7	

We have carried out an assessment of Management's expert, Hymans Robertson and have satisfied ourselves that they have the appropriate knowledge and experience to undertake this work and have used methodologies and assumptions that are in line with industry norms and appropriate to Cheshire Fire Authority.

We have used of PwC as auditor's expert to support our assessment of the actuary and assumptions made by actuary; key assumptions are set out in the table above. For four out of five assumptions Hymans Robertson were within the ranges identified as reasonable by the auditor's expert. For female life expectancy Hymans Robertson have quoted a range greater than the PwC range, However this only applies to future pensioners who are assumed to have an average current age of 45 and therefore life expectancy of 73 appears reasonable.

We have tested the completeness and accuracy of the underlying information used to determine the estimate, confirming that the authority has properly extracted the data from its records and transferred it intact to the actuary and to Cheshire Pension Fund.

We have confirmed that there has been no change in valuation method.

We have reviewed the adequacy of disclosure of estimate in the financial statements, comparing the statements to the requirement of the CIPFA Code and are satisfied all material requirements have been met.

Significant findings – going concern

Our responsibility

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

Going concern commentary	Auditor commentary
Management's assessment process The Authority has a reasonable expectation that the services it provides will continue for the foreseeable future. Its level of free general reserve at 31 March 2020 £2,3m and represents just over 5% of gross expenditure on services, in addition the Authority has earmarked reserves of £19m including £14.5 resource centre reserve set aside to support service change and efficiency programmes. For this reason, it continues to adopt the going concern basis in preparing the financial statements.	• The CIPFA Code requires that local authorities, such as Cheshire Fire Authority, that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting. In the absence of proposed legislation to this effect the Authority is making a reasonable assumption. • In fulfilling its responsibilities to plan for the safety of people in Cheshire, each year the Authority prepares an Integrated Risk Management plan that sets out the priorities for the Authority and the strategy for achieving those priorities. It is linked to and supported by the Medium-Term Financial Plan MTFP. • The Authority has identified that additional costs relating to Covid 19 have fallen in 2020/21 financial year and the effect has been mitigated by measures such as early remittance of s31 grants from central government which has boosted cash flow. • The Treasurer when preparing the forthcoming budget, in support of the Council Tax precept has a duty to prepare a statement that confirms the robustness of estimates. • The Treasurer is supported in this by the Head of Finance.
Work performed The MTFP has been reviewed and compared to the budget for the year to 31 March 2021 and the Council Tax precept papers. The review focused on the reasonableness of assumptions used in preparing forecasts.	• We did not identify any material uncertainty relating to going concern. • Assumptions used in the forecasts incorporated in the 2021 Budget and the MTFP were clearly set out, appropriate to the Authority's requirements and applied consistently.
Concluding comments	• We have concluded that managements' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. • Our audit opinion where it relates to the application of the going concern basis of preparation will be unmodified.

Other findings –

Our responsibility

As auditors, we are required to report significant deficiencies in internal control ad other failures where they may have a material impact on the financial statements.

Control failure	Auditor commentary
Payment without express authorisation An invoice for £44,225.50 plus Vat in respect of the Authority's contribution to Blues Light Collaboration- Oracle Cloud Implementation- was sent to the budget holder for approval in an email along with one other item. The reply shows explicit approval for the second invoice but not for the first which was nonetheless processed for payment and included in a BACs transfer of £147,399.35	• Reviewing the audit trail confirmed that there was no reason not to pay the invoice, subsequent enquiries confirmed there was no intention to withheld approval. • The invoice and payment were properly processed and reported in the correct accounting period and under the correct account headings. • Based on the above, we are satisfied there is no error in the financial statements, however the control process has failed as approval for payment has not been adequately evidenced.
Recommendation The authority should review its procedures and practises for approving unusual items of expenditure and expenditure that falls outside the normal creditor payment systems to ensure appropriate approval is obtained and evidenced.	**Management response** The Authority will strengthen authorisation arrangements in this area.
Assurance over service organisations	**Auditor Commentary**
XPS payroll services The authority does not obtain an independent assurance report over the control environment at the outsources payroll provider XPS.	The Authority user XPS to process its payroll transactions - all HR related matters are managed in house and the authority undertakes checks on the validity and accuracy of the payroll processing. The Contract with XPS includes quality performance measures. While not essential, it is common for service users to request assurance reports from service providers.
Recommendation The authority should consider whether it has adequate assurance over processing controls at the payroll provider	**Management response** The service provided by XPS is a processing one only, all significant payroll variables are under the control of the authority, routine checking provide assurance over the accuracy of the payroll runs. The level of additional assurance available from such a report has been considered but not found to be significant.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with Members of the Authority. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Authority, which is included in the Authority Meeting papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to National Westminster Bank and Aberdeen Asset Management. This permission was granted and the requests were sent and both of these requests were returned with positive confirmation. We requested direct confirmation of authenticity of reports issued by Hymans Robertson and Cottrell Commercial, and such confirmation was received.
Disclosures	The valuer had included in his report a statement that as a consequence of market activity being impacted by the Covid-9 outbreak, property valuations are subject to material valuation uncertainty and a higher degree of caution should be attached to such valuations. This narrative was not included in the unaudited financial statements however management agreed to its correction. The Authority has disclosed the fair value of the PWLB loans at £1,238k based on the early redemption rate. We have calculated the fair value based on the PWLB new loan rates at the reporting date and estimated the fair value to be £1,126k , a difference of £111k. Management do not consider this difference to be material to a readers understanding of the financial statements and has not amended. The liability is measured and reported correctly in the balance sheet. In addition to the above we identified a small number areas where disclosure could be enhanced, management agreed to make the relevant amendments. Full details are set out in appendix B
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix D
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters. We did note that the when the Public Rights notice was first posted announcing the Inspection period only the unaudited statement of accounts was published, and that the inspection period ran for 30 working days from 31 July to 10 September. Regulation 15 of the Audit and Accounts Account requires the Annual Governance statement to also be published before the start of the Inspection period. This was corrected on 5 August and the Inspection period extended to 18 September.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Work is not required as the Authority does not exceed the threshold.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of Cheshire Fire and Rescue Authority at the point of issuing our audit report.

Value for Money

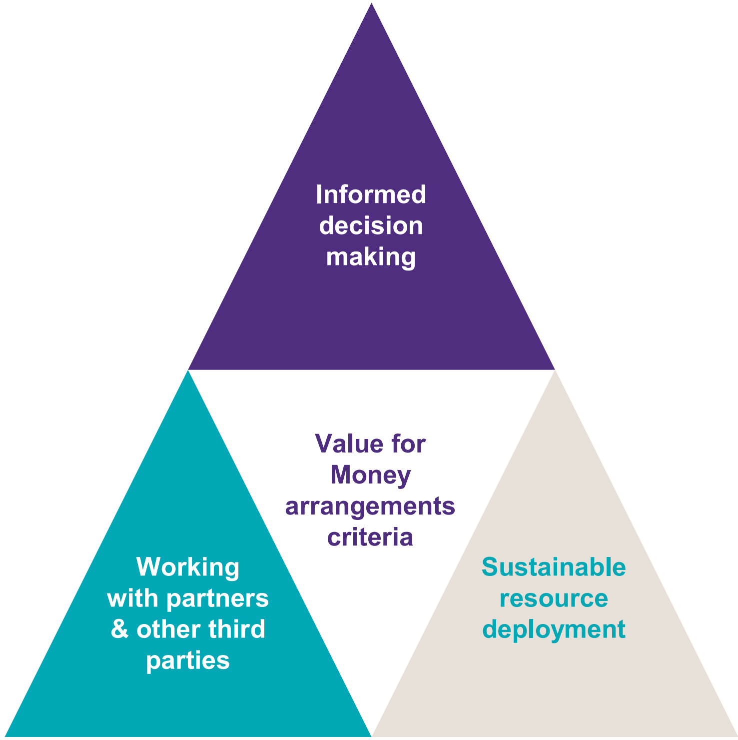
Background to our VFM approach

We are required to satisfy ourselves that the Authority has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. 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."

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



Risk assessment

We carried out an initial risk assessment between March and June against the guidance provided by AGN03. We communicated this to you in our Audit Plan dated 29 April 2020. At that time we indicated that we would review the Authority's arrangements for budgeting and for monitoring and reporting financial performance which is a key part of ensuring sustainable resource deployment.

We also indicated we would review our understanding of the Authority's approach to ensuring business continuity after the outbreak of Covid -19.

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

We carried out further work only in respect of the risks we identified from our initial and ongoing risk assessment.

Value for Money

Our work

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

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

- Has the Authority maintained its record of good financial management?
- Has the Authority responded appropriately to the effects of the Covid-19 outbreak?

Overall conclusion

Based on the work we performed to address the risks, we are satisfied that the Authority had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

We have no recommendations to make to management

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.

Risk area	Findings	Conclusion
Financial Sustainability The Authority faces funding reductions, changes in the legislative framework and uncertainty about future pensions costs	• The Authority again delivered a small budget surplus which in accordance with declared policy has been used to support reserves. • The was effective monitoring of the performance against budget through out the year. • The Authority actively managed its investments, borrowings and cash, in line with the treasury management strategy approved before the start of the year , to support the capital programme. • Financial management and operational risk management remain closely aligned through the process for updating the Integrated Risk Management Plan. • The Authority remains committed to working with partners across the public sector.	The Authority has adequate arrangements in place for ensuring financial sustainability that include arrangements to make decisions on an informed basis and to work effectively with partners.
Covid 19 This is an unprecedented circumstance which will change the way the Authority Functions.	• Cheshire Fire Authority had in place arrangements to continue operating as normal once the Covid-19 Lockdown began, with non-frontline staff able to work remotely. • We found no evidence of weakening of the transactional control environment. • Member meetings were suspended temporarily; when IT issues were resolved, a working protocol established for remote meetings ensuring member oversight maintained. • The Authority has identified that additional costs associated with Covid-19 will fall into 2021 and is monitoring these against Government support.	The Authority has responded appropriately to the Covid-19 outbreak.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Authority's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Authority's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No non-audit services were identified which were charged from the beginning of the financial year to 25 September 2020.

Action Plan: Audit recommendations

We set out below the recommendations made in the body of this report.

Control failure	Auditor commentary
Payment without express authorisation An invoice for £44,225.50 plus Vat in respect of the Authority's contribution to Blues Light Collaboration- Oracle Cloud Implementation- was sent to the budget holder for approval in an email along with one other item. The reply shows explicit approval for the second invoice but not for the first which was nonetheless processed for payment and included in a BACs transfer of £147,399.35	• Reviewing the audit trail confirmed that there was no reason not to pay the invoice, subsequent enquiries confirmed there was no intention to withheld approval. • The invoice and payment were properly processed and reported in the correct accounting period and under the correct account headings. • Based on the above, we are satisfied there is no error in the financial statements, however the control process has failed as approval for payment has not been adequately evidenced.
Recommendation	**Management response**
The authority should review its procedures and practises for approving unusual items of expenditure and expenditure that falls outside the normal creditor payment systems to ensure appropriate approval is obtained and evidenced.	The Authority will strengthen authorisation arrangements in this area.
Assurance over service organisations	**Auditor Commentary**
XPS payroll services The authority does not obtain an independent assurance report over the control environment at the outsources payroll provider XPS.	The Authority user XPS to process its payroll transactions - all HR related matters are managed in house and the authority undertakes checks on the validity and accuracy of the payroll processing. The Contract with XPS includes quality performance measures. While not essential, it is common for service users to request assurance reports from service providers.
Recommendation	**Management response**
The authority should consider whether it has adequate assurance over processing controls at the payroll provider	The service provided by XPS is a processing one only, all significant payroll variables are under the control of the authority, routine checking provide assurance over the accuracy of the payroll runs. The level of additional assurance available from such a report has been considered but not found to be significant.
Annual Governance Statement	**Auditor Commentary**
Delay in publication The Annual Governance Statement was not posted on the Authority's website until the 5 August 2020 although the Statement of accounts had been posted and the Public Inspection period advertised from 31 July 2020.	The Accounts and Audit Regulation 15 sets out the requirements for publication at the start of the inspection period and 15) 2) a) ii) requires the Annual Governance Statement to be made available, at the same time as the financial statements, even if not yet approved by the Authority. This was corrected immediately it was brought to the Authority's attention. A similar error occurred in 2018.
Recommendation	**Management response**
Ensure the Annual Governance Statement is published at the same time as the Statement of Accounts.	Publication schedules for of both documents will be harmonised.

Audit adjustments

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

Misclassification and disclosure changes

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

Disclosure matter	Detail	Auditor recommendations	Adjusted?
Material valuation uncertainty in Land and Buildings values.	The valuer had included in his report a statement that property valuations are subject to material valuation uncertainty and a higher degree of caution should be attached to such valuations.	Include details of this disclosure in the financial statements under the heading Estimation uncertainty **Management response** Agreed, financial statements to be amended.	✓
Fair value disclosure for financial liabilities.	The fair value of the PWLB borrowings is reported at £1,238k based on calculations prepared by Link Asset Management. We have determined the fair value based on the new loan right to be £1,127k	Amend the fair value disclosure **Management response** Management has based the fair disclosure on advice received from its treasury management advisors. Management accepts that a different basis produces a valid fair value however the difference is not material, the disclosure is illustrative only, and the underlying balance is correctly measured and reported.	✗
Note 1.1 accounting polices basis of preparation.	The note did not stipulate that the accounts are prepare don a going concern basis	Amend the disclosure to include an express statement to this effect. **Management response** Additional narrative added as follows. “In addition, this Statement of Accounts assumes the Fire Authority will continue in operational existence for the foreseeable future under the ‘Going Concern’ concept as a statutory body under legislation.”	✓
Note 2 Accounting standards issued but not adopted	No reference to IFRS 16 Leases	This standard was due to come into effect on 1 April 202) but has been deferred to 2021 following the Covid 19 outbreak, and explanation should be included. **Management response** Additional narrative will be added to the note.	✓

Audit adjustments

Misclassification and disclosure changes (continued)

Disclosure matter	Detail	Auditor recommendations	Adjusted?
Note 3 Critical Judgements	Assumptions about Government funding have been identified under the heading of significant judgements.	The disclosure does not relate to judgements about the application of any specific accounting policy or measurement of any specific line item with the primary statements and therefore should be removed. **Management response** Agreed, disclosure removed.	✓
Note 4 Estimation uncertainty	The disclosure refers to asset lives and provisions which are estimated but are unlikely to have material impact in the next reporting period.	The disclosures are not required and can be removed **Management response** Agreed, disclosure removed.	✓

Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Amendment to pensions liability to reflect consultation on McCloud remedy	Cr 2,369	Dr 2,369	Cr 2,369
Overall impact	**Cr £2,369**	**Dr £2,369**	**Cr £2,369**

Impact of unadjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not amending
Fair value of PWLB Loans overstated in disclosure note 13 £111k	nil	nil	nil	Management do not consider this difference to be material to a readers understanding of the financial statements. The liability is measured and reported correctly in the balance sheet.
Overall impact	**Nil**	**Nil**	**nil**	

Fees

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

Audit fees	Proposed fee	Expected final fee
Authority Audit	27,492	27,492
	£27,492	**£27,492**

The fees reconcile to the financial statements.

- fees per financial statements £31,992
- additional fee in respect of 2018/19 audit (£4,500)
- total fees per above £27,492

No non-audit or audited related services have been undertaken for the Authority

Audit opinion

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

Independent auditor's report to the members of Cheshire Fire Authority
Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cheshire Fire Authority (the 'Authority') for the year ended 31 March 2020 which comprise, the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including accounting policies and includes the firefighters' pension fund financial statements comprising the Fund Account and the Net Assets Statement. The notes to the financial statements include the Expenditure and Funding Analysis Note and the Notes to the Accounts. 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Treasurer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

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

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

In our evaluation of the Treasurer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings

We draw attention to Note 10 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of land and buildings as at 31 March 2020. As, disclosed in Note 4 to the financial statements, it is the valuers' professional judgement less certainty and a higher degree of caution are attached to the valuation than would normally be the case. Their valuation is therefore reported on the basis of 'material valuation uncertainty' and a higher degree of caution should be attached to their valuation than would normally be the case. Our opinion is not modified in respect of this matter.

Audit opinion

Other information

The Treasurer is responsible for the other information. The other information comprises the information included in the Narrative Report, other than the financial statements and our auditor's report thereon and the Annual Governance Statement. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

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

As explained more fully in the Statement of Responsibilities set out on page 16, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Treasurer. The Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Treasurer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Authority is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Audit opinion

Auditor's responsibilities for the audit of the financial statements

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

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

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

Report on other legal and regulatory requirements - Certificate

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

Use of our report

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

[Signature]

Michael Green Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Manchester

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