

Auditor's Annual Report

Cleveland Fire Authority – year ended 31
March 2021

January 2022



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01

Section 01: **Introduction**

1. Introduction

Purpose of the Auditor’s Annual Report

Our Auditor’s Annual Report (AAR) summarises the work we have undertaken as the auditor for Cleveland Fire Authority (‘the Authority’) for the year ended 31 March 2021. Although this report is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice (‘the Code’) issued by the National Audit Office (‘the NAO’). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We issued our audit report on 14 December 2021. Our opinion on the financial statements was unqualified.



Value for Money arrangements

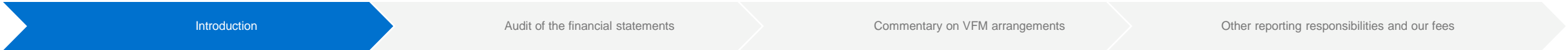
In our audit report, issued on the 14 December 2021, we reported that we had not completed our work on the Authority’s arrangements to secure economy, efficiency and effectiveness in its use of resources and had not identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Authority’s arrangements. No significant weaknesses in arrangements were identified and there are no recommendations arising from our work.



Wider reporting responsibilities

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and to consider any objection made to the accounts. We did not receive any questions or objections in respect of the Authority’s financial statements.

We have still not received group instructions from the National Audit Office. When we have received the instructions and completed the required work we will issue our audit certificate, which will formally close the audit for the 2020/21 financial year.



02

Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Authority and whether they give a true and fair view of the Authority's financial position as at 31 March 2021 and of its financial performance for the year then ended.

Our audit report, issued on 14 December 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

Qualitative aspects of the Authority's accounting practices

We reviewed the Authority's accounting policies and disclosures and concluded that they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Authority's circumstances.

Draft accounts were approved by the Authority on 30 July 2021 and both the accounts and supporting working papers were of a good quality. We commenced the audit on 23 September 2021 and presented our audit completion report to the Audit and Governance Committee on 19 November 2021. However, we had to wait for assurance from the pension fund auditor before we could issue our opinion. We received this assurance following clarification of their findings, on 13 December 2021.

Significant difficulties during the audit

We did not encounter any significant difficulties during the course of the audit and we have had the full co-operation of management.

03

Section 03:

Commentary on VFM arrangements

3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Authority plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Authority ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Authority uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work so we can understand the arrangements that the

Authority has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement.

The table below summarises the outcomes of our work against each reporting criteria. On the following pages we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	9	No	No
Governance	11	No	No
Improving economy, efficiency and effectiveness	13	No	No

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

How the Authority identifies significant financial pressures that are relevant to its short and medium-term plans

We have reviewed the Authority's overall governance framework, including Fire Authority and Audit and Governance Committee reports, the Annual Governance Statement, and the Annual Report and Accounts for 2020/21. These confirm that the Authority undertook its responsibility to define the strategic aims and objectives, approve budgets and monitor financial performance against budgets and plans to best meet the needs of the Authority's service users.

The Authority receives assurance on all aspects of financial management and operational performance through reports to the Audit and Governance Committee. This includes:

- overseeing and assuring financial and operational performance;
- considering the risks associated with any material financial transactions;
- considering the financial and operational risks involved in the Authority's business and how they are controlled and monitored by management; and
- taking action needed to address issues raised or to make improvements.

Our review of supporting papers confirmed that it did so effectively throughout 2020/21.

The Authority's 2020/21 financial plan was designed to make a £0.5M contribution to the Budget Support Fund after allowing for £0.8M non-recurring funding necessary to compensate for the financial impact of COVID-19. The plan included savings of £0.2M that were achieved through contract negotiation in 2019/20 and did not require any further operational savings or contributions from reserves.

The Authority monitors its financial performance closely and forecast small underspends consistently through the year. Audited accounts show this was achieved with a £425K surplus for the year to 31 March 2021.

Formal meetings of the Authority and its committees did not take place in the first 5 months of 2020/21 due to the pandemic but the financial position was reported to the Executive in September 2020. Since February 2021, the Audit and Governance Committee has received quarterly budget monitoring reports providing detailed commentary of performance against budget, including explanations of significant variances. The financial

position was challenged at these meetings and the reasons for the surplus were clearly articulated.

Budget Preparation commences at least five months in advance of the forthcoming year. The Executive Leadership Team discuss pressures, growth and savings and the Treasurer updates for assumptions regarding funding, inflation and the council tax increase. The Medium Term Financial Strategy is regularly updated and reported to members as financial forecasts change.

How the Authority plans to bridge funding gaps and identifies achievable savings

The Authority has a history of meeting its financial targets with savings of £7M delivered in the last 10 years in response to a reduction in funding of 31% in that period.

The Authority has taken a prudent approach to filling vacancies and using reserves to avoid compulsory redundancies and maintain fire cover in line with the Community Integrated Risk Management Plan.

The Authority's positive track record in terms of delivering savings and keeping within budget has allowed it to maintain a general reserve of £1.55M at 31 March 2021, which is in line with the minimum level determined by the Treasurer's risk assessment and about 6 per cent of net expenditure. In addition, the Authority has a Budget Support Fund of £5.63M set aside to meet a potential funding gap over the period of the Medium Term Financial Strategy.

The Medium Term Financial Strategy covers a rolling three year programme and is designed to maintain the general reserve at the minimum level determined by the Treasurer's risk assessment, with the Budget Support Fund utilised to allow sufficient time to develop and implement further savings. Accordingly, the Authority balanced its 2021/22 budget without the need for further savings but identified a funding gap of £0.8M for 2022/23 and 2023/24. The updated Medium Term Financial Strategy reported to Executive in November 2021 indicates further use of the Budget Support Fund for 2022/23 with savings postponed until 2023/24.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

How the Authority plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

Resources follow priorities through the Medium Term Financial Strategy. The Strategy is sustainable over the three year period whilst maintaining a prudent general minimum reserve which is risk assessed annually and reported to the Authority. The Authority is relatively well placed to support the sustainable delivery of services and the 2020/21 Annual Performance Report indicates that performance continued to be good. There were reductions in all incident types except accidental dwelling fires and the Authority has one of the lowest rates of accidental dwelling fires in the country.

We have critically assessed the underlying assumptions used in the Medium Term Financial Strategy and consider them to be appropriate. Although during 2020/21 the Government announced a public sector pay pause the Authority continued to assume pay inflation of 2 per cent per annum and agreed pay awards for firefighters and ongoing negotiations for non-uniformed staff vindicate this decision. The Strategy assumed that government funding would be frozen for 2022/23 and 2023/24. Although the provisional finance settlement for 2022/23 allows for a small increase in funding this is largely to address unexpected pressures such as fuel and energy inflation and the planned increase in national insurance contributions.

How the Authority ensures that its financial plan is consistent with other plans

The MTFS is underpinned by workforce planning and capital programmes and takes into account risks arising during the year and planning assumptions within the Community Integrated Risk Management Plan (CIRMP). The CIRMP sets out the risk prevalent within the Authority's area and the resources (people and finance) to manage those risks.

We have not identified any inconsistency between the various plans in prior years or from our review of the new CIRMP.

How the Authority identifies and manages risks to financial resilience

The Authority undertakes substantial work to understand possible future impacts on the budget. The medium term budget projections consider various budget pressures, such as pay and price increases, the revenue implications of the capital programme and other pressures including the implications of COVID-19. The risk register contains a critical risk and remedial action regarding the financial position and is monitored quarterly.

For several years the Home Office have indicated that the formula for distributing grant between fire and rescue authorities is to be revised and a three year settlement agreed to provide greater certainty but in 2021 this has again been postponed. However, the risk associated with any loss of funding arising from this review is covered by the Budget Support Fund.

The Authority correctly forecast that the pandemic would result in an increase in households eligible for Local Council Tax Support and therefore reduction in Council Tax income – which would materialise as a Collection Fund deficit when setting the 2021/22 budget. An initial assessment of this impact was made and £0.4m set aside to manage this risk, which was within £62K of the actual deficit.

It is clear from a review of the Medium Term Financial Strategy and the scenario planning that the Authority is closely monitoring the progress against plan to date, is fully aware of where the risks lie and continues to identify mitigating actions to address these risks.

Conclusion

Given the above, our work did not identify any evidence to indicate a significant weakness in the Authority's arrangements in relation to the financial sustainability reporting criteria.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

How the Authority monitors and assesses risk and how the Authority gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Authority has a comprehensive risk management system in place which is embedded into the governance structure of the organisation. The processes are supported by the Authority's Risk Management Strategy and the Authority leadership plays a key role in implementing and monitoring the risk management process.

The Audit and Governance Committee have overarching responsibility for risk management and considers the content of the Corporate Risk Register quarterly with an annual detailed review. The risk register takes account of any changes in the entity's internal and external environments. The register is completed with senior management input and they are pro-active in evaluating the risks. We are satisfied that the management team have appropriate industry and regulatory knowledge.

We have confirmed through attendance at Audit and Governance Committee meetings that detailed discussion and challenge has taken place on high level risks. Remedial action is discussed and the residual risk after these actions agreed.

In order to provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, the Authority has a service level agreement with Hartlepool Borough Council for the provision of 100 days internal audit work. Work plans are agreed with management in advance of the start of the financial year and reviewed by the Audit and Governance Committee prior to final approval.

We have reviewed the Internal Audit Plans for 2020/21 and 2021/22 and confirmed planned work addresses the expected areas with annual coverage of key financial controls. Progress reports are presented to each Audit and Governance Committee meeting including follow up reporting of recommendations not fully implemented by agreed due dates. This allows the Committee to effectively hold management to account on behalf of the Authority.

Our attendance at Audit and Governance Committees throughout the period confirms the significance placed on internal audit findings. Members of the committee actively request management attendance at committees to discuss findings from internal audit reports.

Internal audit gave a satisfactory assurance opinion on the Fire Authority in their 2020/21 Annual Report with no significant governance weaknesses identified for reporting in the Annual Governance Statement.

How the Authority approaches and carries out its annual budget setting process

The Authority's Medium Term Financial Strategy includes the identification and evaluation of risks to the Authority's finances and is developed in parallel to the budget for the following year and setting of the precept. We have reviewed the budget setting arrangements through observation and discussions with officers. No matters have been identified indicating a significant weakness in arrangements.

Overall the Authority is aware of the financial pressure it faces. We confirmed that scenario plans are in place to identify the potential financial impact of risks occurring.

How the Authority ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

Responsibilities of budget holders are clearly set out in the Budget Monitoring procedures note and they are required to provide explanations for variances in their monthly budget reports.

Budget reports show the actual expenditure and income compared to what was budgeted and highlight any variances. Finance support the budget holders in updating their year-end forecasts and identifying any remedial action required. In 2020/21 no such action was required as the only budget areas overspending were those covered by COVID grant.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

Performance against targets and prior years was reported to each meeting of the Audit and Governance Committee in 2020/21. The reports detail the Authority’s performance against the target for all standards, as well as highlighting the key concerns, and the mitigating actions to show how performance will be improved where necessary. The performance reports are discussed at the same meeting as budget monitoring reports and officers describe the relationship between the two. An annual performance report is prepared and published on the Authority’s website.

How the Authority ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

The Authority has an established governance structure in place which is set out within its Annual Governance Statement. This is supported by the Authority’s Constitution and scheme of delegation. Executive Directors have clear responsibilities linked to their roles and the structure in place at the Authority allows for effective oversight of the Authority’s operations and activity.

We reviewed these documents as part of our audit and confirmed that they were consistent with our understanding of the Authority’s arrangements in place and were fully operational. Audit and Governance Committee members are appropriately skilled to undertake their role and provide appropriate challenge to Management and Internal and External Audit. Two members are independent appointments and are recruited and trained to provide a range of skills and collectively provide effective scrutiny.

How the Authority monitors and ensures appropriate standards are maintained

The Authority expects the highest standards of conduct from both its members and officers. The Ethical Governance Framework is reviewed and updated regularly by management with an annual review of the Constitution. Management are committed to integrity and ethical behaviour and this is evident from our attendance of Committee’s and meetings with management. The Authority has a separate Anti-Fraud and Corruption Policy which sets out detailed policies and procedures to prevent and detect fraud. The latest version of the policy was updated in June 2021.

Conclusion

Given the above, our work did not identify any evidence to indicate a significant weakness in the Authority’s arrangements in relation to the governance reporting criteria.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

How financial and performance information has been used to assess performance to identify areas for improvement

One of the Authority’s three corporate objectives in its new Community Integrated Risk Management Plan is ‘*efficient, sustainable resources*’. The CIRMP also sets out nine priorities for the next five years and one of these priorities is to ‘*ensure our prevention activities remain efficient, effective and deliver value for money*’.

Detailed information on operational performance is reported to the Audit and Governance Committee on a quarterly basis. Performance is available to members of the public via the website and can be drilled down to specific areas. Performance reports are provided at all levels of the organisation including individual fire stations. Incident data has been used to target home fire risk assessments for many years. Performance updates relating to COVID have been presented to staff and Elected Members on a weekly basis by the Chief Fire Officer.

Remedial action is taken where appropriate. For example, the Authority has for many years had one of the lowest rates of accidental dwelling fires in the country and linked this to having one of the highest rates of home fire safety checks. However, the number of home fire safety checks undertaken has fallen in the last five years and in the last two years the rate of accidental dwelling fires has increased. The Authority has responded by setting a target in its new CIRMP of 20,000 home fire safety visits a year (29% higher than in 2020/21) and at the midpoint of 2021/22 it is on track, having completed over 10,000 visits, which is 40% above the average for the previous three years.

We have reviewed the performance information provided to the Authority as part of our review of agenda papers and minutes. Through this we have confirmed that the Authority effectively hold managers to account where performance improvements are required.

How the Authority evaluates the services it provides to assess performance and identify areas for improvement

The Authority received a thematic inspection in 2020/21 focused on its response to the pandemic. HMICFRS reported that the Authority “*adapted and responded to the pandemic effectively by prioritising the health, safety and wellbeing of both its own staff and the community*”. They noted that the Authority undertook several additional roles such as delivering medicines, food and personal protective equipment, training and distributing information about COVID-19. HMICFRS did not make any recommendations specific to Cleveland Fire Authority and its judgements for this inspection were not scored.

In the last full inspection the Authority was one of only 34% of FRAs to achieve a ‘*good*’ rating in every category:

- Effectiveness – Good;
- Efficiency – Good; and
- People – Good.

The Authority prepared an action plan against all 15 recommendations, which it incorporated in its 2020/21 Service Plan. It regularly reported on progress during 2020/21.

In 2020/21 the Authority performed well against its key performance indicators with all response standards met and a 10% reduction in emergency incidents. There was one fire fatality. The Authority implemented a new arson reduction strategy and a new policy for unwanted fire signals and achieved significant reduction in both these incident types. The change in unwanted fire signals policy was formally evaluated and a comprehensive evaluation of prevention activities is a key measure in the new CIRMP. Whilst HMICFRS commended the Authority’s approach to performance management they noted the evaluation of prevention activity as an improvement opportunity.

The Authority’s arrangements for effective partnership working

The Authority has a long-established service level agreement with Hartlepool Borough Council for the provision of support services, which it has recently extended and Memoranda of Understanding with several other emergency services. For example, it shares estate in Hartlepool with Cleveland Police and the control room shares fall back cover with two other fire and rescue authorities. It is currently working with County Durham and Darlington Fire and Rescue Authority to explore options for the future provision of fire control.

The Authority recognises in its CIRMP that improving community safety is best achieved through collaboration with other agencies. Existing collaboration includes:

- Delivering home fire safety visits in partnership with health and local authorities;
- Integrating its arson reduction strategy with Cleveland Police; and
- Participating in the North East Road Safety Partnership.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

Partnerships appear to be working well as evidenced by the performance monitoring reports. Partnerships are risk-assessed before being entered into and an established framework exists.

The Authority has an in-house procurement team with suitable qualifications and experience that are responsible for producing the Procurement Policy in use by the Authority. The procurement team use established national and regional procurement frameworks to maximise purchasing power and participate in national benchmarking exercises, which have not identified any scope for significant savings. A Procurement Contract Clinic (PCC) comprising of the Assistant Chief Fire Officer and the Authority's Legal Advisor oversees the procurement activity and authorisation to spend and produce quarterly reports for the Executive Leadership Team.

The Authority regularly review the mix of in-house and outsourced support service provision to achieve economies of scale, whilst maintaining sufficient access to specialist advice. The Treasurer is shared with Hartlepool Borough Council but the service level agreement commits him to work on the Fire Authority one day a week. When the Monitoring Officer left a similar role with the Council, the Fire Authority insourced legal services by employing him directly part-time.

There is no evidence that procurement is likely to expose the Authority to significant financial loss or failure to deliver efficiency and performance improvements.

Conclusion

Given the above, our work did not identify any evidence to indicate a significant weakness in the Authority's arrangements in relation to the improving economy, efficiency and effectiveness reporting criteria.

04

Section 04:

**Other reporting responsibilities and
our fees**

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data.

At the time of preparing this report we have not yet received instructions from the NAO on what procedures are required. As such this work is outstanding. Until this work is concluded we cannot issue our audit certificate.

4. Other reporting responsibilities and our fees

Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Governance Committee in February 2021. Having completed our work for the 2020/21 financial year, we can confirm that our fees are as follows:

Area of work	2019/20 fees	2020/21 fees
Planned fee in respect of our work under the Code of Audit Practice	£22,243	£22,243
Delivery of group accounts work under the NAO Code of Practice	£2,926	£2,926
Recurring increases in the base audit fee arising from regulatory pressures	£5,110	£5,110
One-off fee increase for 2019/20 specific issues	£2,052	0
Additional fees in respect of the new VFM approach (see note 1)	0	£5,000
Additional fees in respect of the revised ISA540 (see note 1)	0	£1,900
Total fees	£32,331	£37,179

Note 1: PSAA indicated the range of additional fees expected to apply from 2020/21 to reflect the additional work required at all fire and rescue authorities. We have set our 2020/21 additional fees at the minimum of this range.

https://www.psaa.co.uk/additional-information-for-2020-21-audit-fees/page/3/?_sm_byp=iVVrRH4tQsPrR1PF

All fees are subject to VAT. All additional fees are subject to Public Sector Auditor Appointments (PSAA) approval.

Fees for other work

We confirm that we have not undertaken any non-audit services for the Authority in the year.

Introduction

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