



Auditor's Annual Report

Cleveland Fire Authority – year ended 31 March 2023

10 June 2024

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Introduction

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 2023. 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 10 June 2024. Our opinion on the financial statements was unqualified.



Value for Money arrangements

In our audit completion report follow up letter we reported that we had completed our work on the Authority’s arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements. Section 3 provides our commentary on the Authority’s arrangements.



Wider reporting responsibilities

The NAO, as group auditor, requires us to complete the Whole of Government Accounts (WGA) Assurance Statement in respect of its consolidation data. We will issue our report in the next few days. As in previous years, we anticipate a significant delay before we will be able to issue our 2022/23 audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.

Audit of the financial statements

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 2023 and of its financial performance for the year then ended. Our audit report, issued on 10 June 2024 gave an unqualified opinion on the financial statements for the year ended 31 March 2023.

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

Significant matters discussed with management

Our audit completion report issued on 11 April 2024 explained that the 2022/23 audit was substantially complete but there would be a delay issuing our opinion because we were unable to conclude our work addressing the significant risk arising from the defined benefit pension scheme until the audit of the Teesside Pension Fund (TPF) was substantially complete. We received the requisite assurance from the TPF auditor on 22 April 2024.

We discussed issues raised in the letter with the TPF auditor and estimated their impact on Cleveland Fire Authority’s financial statements. As the impact was immaterial the Authority opted not to amend the statements in respect of these issues. However, some minor amendments were agreed arising from the audit closing procedures. The statements have now been amended were approved by the Authority on 7 June 2024

Reporting responsibility	Outcome
Annual Report	We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Authority.
Annual Governance Statement	We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting.

Our work on Value for Money
arrangements

VFM arrangements


Overall Summary





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.
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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.

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

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.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

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.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We outline the risks that we have identified and the work we have done to address those risks on page 10.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.




We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Authority. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements** - We make these recommendations for improvement where we have identified a significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations** - We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken.

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria		Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
	Financial sustainability	11	No	No	No
	Governance	14	No	No	No
	Improving economy, efficiency and effectiveness	17	No	No	No

VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Overall responsibilities for financial governance

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 2022/23. These confirm that the Authority appropriately 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
- acting to address issues raised or to make improvements.

Our review of supporting papers confirmed that it did so effectively throughout 2022/23.

The Authority's financial planning and monitoring arrangements

The Authority's 2022/23 financial plan was designed to achieve break-even without any requirement for operational savings or a call on reserves, other than those earmarked for non-recurring 2022/23 projects. However, high inflation and protracted pay negotiations represented a considerable risk to delivery of the plan and the Authority prudently held vacancies and deferred expenditure where this did not impact on operational delivery. Accordingly, although the firefighters pay award incurred £0.8M of unbudgeted expenditure, by month nine the Authority forecast a small overspend of just £0.1M and remedial action continued in the final quarter to deliver an underspend and sufficient headroom to create a new Invest to Save reserve.

Audited accounts show that the plan was achieved with a managed underspend of £0.1M and £0.6M allocated to the Invest to Save Reserve to help fund efficiency and productivity improvements necessary for medium term sustainability. The Authority receives quarterly management accounts providing detailed

commentary of performance against budget, including explanations of significant variances. The financial position was challenged at these meetings and remedial action was taken as described above.

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 (MTFS) is regularly updated and reported to members as financial forecasts change.

The Authority's arrangements and approach to Financial Planning for 2023/24 and 2024/25

The 2023/24 Budget was set in the context of the highest inflation for forty years, peaking at 11% in October 2022 and remaining stubbornly high well into 2023/24. The Government and FBU resolved a long-running pay dispute in February 2023, which resulted in a seven per cent pay award backdated to July 2022 with a further five per cent from July 2023. Although the Government's financial settlement allowed the Authority to increase the council tax precept by £5 and resulted in £1M of additional grant and business rate funding, the Authority determined to use £0.4M of temporary investment income arising from careful management of cash investment to take advantage of unusually high interest rates to balance the budget without requiring operational savings or use of the general reserve or budget support fund. The Authority recognised use of investment income at this level is not sustainable and the use in 2023/24 provided a longer lead time to address this issue. The budget for 2024/25 was subsequently set using a reduced level of investment income of £0.25m, which is sustainable over the MTFS period.

The Authority approved the 2023/24 Budget as part of a new MTFS in February 2023, which included a plan to maintain the general reserves at £1.6M. The 2023 MTFS set out a range of planning scenario and plans to deliver savings will be developed and reported to the Authority during the year. To support the potential phased implementation of future saving the £3M Budget Support Fund may be used to support phasing of savings. The worst-case planning scenario will still retain a £1m Budget Support Fund at the end of the current MTFS.

The Authority is currently preparing the 2023/24 accounts and expect them to show a small underspend of less than £0.2M, which will be used to restore the general reserve to a level of five per cent of the net budget, in accordance with the Treasurer's risk assessment and good practice outlined in the Fire and Rescue National Framework. This is consistent with the forecast in mid-year management accounts and demonstrates the continuing accuracy of the Authority's budget forecasting and tightness of budgetary control.

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria – continued

The Authority's arrangements and approach to Financial Planning for 2023/24 and 2024/25 (continued)

The latest update of the MTFS was approved by the Authority in February 2024. This reflects the latest inflation forecasts, pay negotiations and the outcome of the 2023 Government Spending Assessment. The strategy is evolving slightly as these negotiations continue and economic updates are received. However, the financial position is not significantly changed from the previous year. The first-year budget is balanced through £0.3M use of temporary investment income, without the need for any changes in fire cover, leaving the Budget Support Fund intact at £3M at year-end. This will then be utilised to bridge a budget gap in the second and third years of the strategy of between £0.8M and £1.7M, contingent on various plausible scenarios. The Authority is continuing to review options for savings but even in the worst-case scenario it anticipates £1M remaining in the Budget Support fund at the end of the three-year period.

Although the medium-term financial position is stable and secure the longer-term position is looking more challenging unless there is a recurring improvement in funding. The Authority is experiencing an increasing level of sickness and recruitment and retention difficulties for retained firefighters that create barriers to safely reducing expenditure on full time firefighters, which is by far the greatest proportion of the budget. The percentage of retained crewed appliances available for operational response fell to below 50 per cent in the latest performance monitoring report. The Authority has introduced changes to counselling offered to employees experiencing mental health difficulties, reforms to duty systems and a new retained recruitment drive to address this problem.

Meanwhile, the Authority identified £1.9M of cashable efficiency savings incorporated into the 2024/25 budget, which have substantially already been secured through changes in fees and charges, procurement and the use of the Invest to Save Reserve to improve the efficiency of the estate and equipment. It has now commenced searching for similar non-operational savings and reviewing long-standing vacancies to eliminate medium-term dependence on reserves and non-recurring income in case a recurring improvement in funding and three-year settlement is not in place when the 2025/26 budget is finalised.

The Authority has an excellent track record of delivering savings and keeping within budget. For the period 2013/14 to 2023/24 the Authority's funding reduced by 25% (£5M), but compensating savings were achieved to maintain reserves without compromising performance, as evidenced by the most recent HMICFRS inspection covered on page 18. These savings included reducing the number of full-time firefighters by one third. It fully delivered the non-operational savings in the 2023/24 Efficiency and Productivity Plan and took successful remedial action to mitigate the impact of inflation and pay awards in both 2022/23 and 2023/24.

Accordingly, we do not regard the Authority's potential reliance on reserves in years two and three of the MTFP as a significant weakness. The Authority's February 2023 MTFS had a similar degree of reliance and effective financial management has allowed it to defer the planned use of the budget support fund from 2024/25 to 2025/26. A reduction in reserves has been forecast for several years but has not yet materialised. The Authority's track record at delivering savings and planned underspends indicates that the Authority's use of reserves will be more gradual than set out in the MTFS and a credible plan will be developed to achieve financial sustainability once the Budget Support Fund has been used.

The Budget Support Fund has been prudently built up and maintained until the formula for allocating funding to fire authorities is reviewed and the scale of savings required is clearer. There is potential that such an exercise could benefit Cleveland Fire Authority, but the MTFS prudently assumes a freeze or in the worst-case scenario, a small cut in funding.

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 and the revenue implications of the capital programme. The risk register contains a critical risk and remedial action regarding the financial position and is monitored quarterly. Since the MTFS was approved the risks have diminished as 2023/24 pay offers have been recommended for acceptance by the relevant unions that are close to the level budgeted and there is greater certainty about the government's commitment to fund national pressures in respect of pensions.

We have critically assessed the underlying assumptions used in the MTFS and consider them to be appropriate. The MTFS is underpinned by workforce planning and capital programmes and accounts for risks arising during the year and planning assumptions within the Community Integrated Risk Management Plan (CIRMP). The Resource Plan 2022-2026 considers the financial and human resources in one document.

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

Conclusion

We have not identified any significant weaknesses in the Authority's arrangements in relation to the financial sustainability reporting criteria.

VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks



VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

The Authority's governance structure

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.

We attended several Audit and Governance Committee meetings in the year and found that members were appropriately skilled to undertake their role and provided appropriate challenge to Management and Internal and External Audit. All members are provided training on their responsibilities and duties. Where gaps are identified further training is provided.

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. During 2023/24 in response to national cultural issues within the fire service the Authority updated its whistleblowing, grievance and dignity (anti bullying and harassment policies) and introduced a new requirement for all staff to confirm their written understanding of the policies.

Registers of interests are maintained and published and codes of conduct, updated to reflect the most recent Local Government Association models. We reviewed the declarations of interest during the financial statements audit. We have confirmed that all relevant declared interests have been appropriately reported within the 2022/23 financial statements.

The Authority's risk management and monitoring arrangements

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.

The Authority's arrangements for internal control

The Authority obtains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, through a service level agreement with Hartlepool Borough Council for the provision of 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 2022/23 and 2023/24 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.

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

The Authority's arrangements for internal control (continued)

Internal audit gave a satisfactory assurance opinion on the Fire Authority in their 2022/23 Annual Report (as in the previous year) with no significant governance weaknesses identified for reporting in the Annual Governance Statement.

The Authority's arrangements for budget setting and budgetary control

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.

The MTFS clearly states the assumptions used to develop budgets for each year.

We examined the assumptions behind the latest MTFS approved by the Authority in February 2024 and we have confirmed the assumptions are reasonable, the main ones being:

- Grant funding being frozen or reduced by one per cent after the known increases for 2024/25;
- Council tax income increasing in line with the historic limits on increases without a referendum; and
- Pay awards and inflation of three per cent for most budgets in 2024/25 and two per cent to three per cent thereafter.

We confirmed that sensitivity analysis and scenario plans are in place to identify the potential financial impact of financial risks occurring and minimise the lead-time for implementing savings. The closeness of outturn to the budget suggests budget setting is effective.

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. The results are summarised in quarterly management accounts presented to the Audit and Governance Committee, which contain clear and detailed explanations for variances.

The Authority has tended to underspend slightly in recent years as it has focused on establishing new reserves to meet emerging medium-term pressures, whilst maintaining or increasing the general fund balance. This has continued through the period of high inflation in 2022/23 and 2023/24, although the level of underspending has been lower than in previous years.

The Authority's arrangements for performance management

Performance against targets and prior years was reported to each meeting of the Audit and Governance Committee in 2022/23 and 2023/24. The reports detail the Authority's performance against the target for all key performance indicators, 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. Officers provide a detailed slide-show presentation to members using more up to date data than in the quarterly reports and we have witnessed effective challenge of the outliers. An annual performance report is prepared and published on the Authority's website and there is a more detailed station-level dashboard.

Conclusion

We have not identified any significant weaknesses in the Authority's arrangements in relation to the governance reporting criteria.

VFM arrangements

Improving Economy, Efficiency and Effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

The Authority's arrangements for assessing performance and evaluating service delivery

One of the Authority's three corporate goals in its 2022-2026 Community Integrated Risk Management Plan (CIRMP) is '*efficient, sustainable resources*'. This includes making appropriate use of public money and delivering value for money. 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*'.

Quarterly organisational performance reports include:

- Performance compared with national performance (where information is available) over a five-year period;
- Performance compared to the previous year;
- Performance compared to the previous five-year average;
- Performance against approved targets; and
- Performance trends over the last five years.

In 2022/23 the Authority met its challenging response targets and increased its prevention activity, which had been constrained by lockdown restrictions in the previous two years. Although secondary arson (mainly grassland and refuse) and fatalities both increased, the dry, hot summer of 2022 distorted the volume of secondary fires nationally in 2022/23 and the rate of fatalities remained relatively low. The Authority has a history of delivering one of the highest levels of home fire safety checks in the country and the resumption of pre-pandemic levels of this key prevention measure has contributed to an 18% reduction in accidental dwelling fires during the first nine months of 2023/24, reversing an increase in 2022/23.

Remedial action is taken where appropriate. For example, the Authority recorded the highest rate of arson in the country in 2022/23 but a new arson reduction strategy developed in partnership with other stakeholders has helped reduce deliberate primary fires by 18 per cent in the first nine months of 2023/24.

Although the Authority's net cost of head in 2022/23 was the second highest in the country, this is explained by the exceptional risk arising from high levels of deprivation and control of major accident hazards (COMAH) in addition to the low council tax base.

The Authority's regulator assessments and independent reviews

In January 2023, HMICFRS published their report on the second full inspection of the Authority together with a summary of findings of all inspections in a '*State of Fire*' report. HMICFRS rated the Authority '*Good*' for each pillar of inspection and for all 11 sub-scores. This represented one of the best inspection outcomes in the country.

HMICFRS commended the Authority's response to its previous inspection stating that the Authority had:

"made improvements against all the areas we identified. It has resolved 12 areas for improvement and made progress on four others. Areas where we have seen the greatest improvement are in fire protection and operational response. We have also seen good improvements in efficiency and in how the brigade looks after its people."

HMICFRS's State of Fire report cited good practice at Cleveland in respect of:

- linking resources to strategic priorities;
- the use of technology to share information; and
- Increasing firefighter productivity.

The Authority produced a new Service Improvement Plan in response to HMICFRS's recommendations in the inspection report and progress reports to Executive meetings show that all action has now been implemented or is on track to be implemented before HMICFRS's next inspection. The Authority also undertook a gap analysis against 35 HMICFRS recommendations in a national '*Values and Culture*' report and is making good progress at addressing gaps identified.

VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

The Authority’s regulator assessments and independent reviews (continued)

The results from the previous two full inspections of Cleveland Fire Authority are published on the HMICFRS website and summarised in the following table:

Inspection Pillar	Inspection rating	Previous inspection rating
Effectiveness	Good	Good
Efficiency	Good	Good
People	Good	Good

HMICFRS is planning to conduct its third full inspection of Cleveland Fire Authority in late 2024.

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, 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 three other fire and rescue authorities. It is planning to share further estate in Thornaby with Cleveland Police.

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.

The Authority recently appointed a new Partnership and Evaluation Manager and established a live digital partnership register. Partnerships are risk-assessed before being entered into.

Partnerships appear to be working well as evidenced by the performance monitoring reports

The Authority’s arrangements for commissioning services

The Authority has an in-house procurement team with suitable qualifications and experience that are responsible for producing the Procurement Strategy 2022-2026. 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. During the financial year 2022/23 the Treasurer was shared with Hartlepool Borough Council, but the service level agreement committed him to work on the Fire Authority one day a week. The Authority employed the Treasurer directly from July 2023. When the Monitoring Officer left a similar role with the Council, the Fire Authority insourced legal services by employing him directly part-time.

The Authority has commissioned an independent peer review of procurement, and the Efficiency and Productivity Plan identifies procurement savings of £1.4M over a six-year period.

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

We have not identified significant weaknesses in the Authority’s arrangements in relation to the improving economy, efficiency and effectiveness reporting criteria.

Other reporting responsibilities and our fees

Other reporting responsibilities and our fees

Other reporting responsibilities

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. We will issue our report in the next few days. As in previous years, we anticipate a significant delay before we will be able to issue our 2022/23 audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.

The NAO timetable for 2022/23 WGA is for completion by the end of November 2024, so we anticipate receiving the clearance which will enable us to issue our audit certificate by this date.

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 dated 15 November 2023. Now we have completed the 2022/23 audit, we can confirm our final fees, which include additional fees relating to issues arising this year. All additional fees are subject to Public Sector Audit Appointments (PSAA approval). All fees are exclusive of VAT.

Area of work	2022/23 fees *	2021/22 fees
Planned work in respect of our work under the Code of Audit Practice (scale audit fee published by PSAA)	£30,279	£25,169
Recurring increases in the base audit fee arising from regulatory pressures (as originally agreed in the 2019/20 audit, uplifted by 25% increase in PSAA fee rates from 2021/22); PSAA has now consolidated part of this into the scale fee for 2022/23	£1,278	£6,388
Additional fees in respect of the new VFM approach (recurring, as agreed from the 2020/21 audit)	£5,000	£5,000
Additional recurring fees in respect of ISA 540 requirements in relation to accounting estimates and related disclosures (as agreed from the 2020/21 audit)	£1,900	£1,900
Additional fees in respect of pension disclosures arising from the delay in the PF auditor letter and having to follow up on the revised figures for the triennial valuation and the pension fund auditor testing 2021/22 (not recurring)	£nil	£5,000
ISA 315 revised –additional work in relation to understanding the entity, including documenting risks, risk assessments, and an additional focus on IT general controls (new standard applied from 2022/23 for the first time)	£5,000	£nil
Additional work in relation to review of the LGPS pension asset ceiling calculations – not recurring	£1,000	£nil
Total fees	£44,457 *	£43,457

* The 2022/23 fee is subject to a 5.2% inflationary increase, not included in the table above. As set out in the PSAA's 'Consultation on 2022/23 audit fee scale' published in August 2022, PSAA will fund the inflationary increase using "surplus funds not required for PSAA's operations, which would otherwise be distributed to opted-in bodies" (p8 of the consultation).

Fees for other work

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

Appendices

A: Further information on our audit of the financial statements

Appendix A: Further information on our audit of the financial statements

Significant risks and audit findings

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
Management override of controls Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none">• Accounting estimates impacting amounts included in the financial statements;• Consideration of identified significant transactions outside the normal course of business; and• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. <p>Our audit work has provided the assurance we sought and has not identified any material issues to bring to your attention. There is no indication of management override of controls.</p>
The Valuation of the Defined Benefit Pension Liability / Asset The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. Moreover, in 2022/23 the actuary undertook a triennial revaluation of the local government pension fund and the net valuation moved from a net liability to a net asset for the first time. This results in an increased risk of material misstatement.	<p>We discussed with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally.</p> <p>We reviewed the appropriateness of the key assumptions included within the valuations, compared them to expected ranges and reviewed the methodology applied in the valuation. We considered the adequacy of disclosures in the financial statements.</p> <p>Our work has provided the assurance sought. The Authority amended the accounts to show the surplus on the local government pension scheme as an asset on the balance sheet rather than netting it off the liability on the firefighter's pension scheme. We also considered whether a cap was required on the pension asset by considering the pension asset ceiling calculation.</p> <p>We obtained assurance from the auditor of Teeside Pension Fund. The Authority's share of errors and uncertainties arising from the pension fund audit was immaterial, so the accounts have not been adjusted in respect of these issues.</p>

Appendix A: Further information on our audit of the financial statements

Significant risks and audit findings - continued

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
<p>Valuation of land and buildings</p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Authority’s holding of land and buildings. Although the Authority uses a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of land and buildings due to the significant judgements and number of variables involved in providing revaluations. In addition, there was significant building cost inflation in 2022/23, which increases the risk that assets not revalued in 2022/23 may no longer be valued appropriately. We have therefore identified the valuation of land and buildings to be an area of significant risk.</p>	<p>We addressed this risk by considering the Authority’s arrangements for ensuring that land and building values are reasonable and we used data on valuation trends and relevant indices to assess the reasonableness of the valuations provided by the external valuer. We also assessed the competence, skills and experience of the valuer.</p> <p>We discussed methods used with the valuer and tested their calculations. We used indices provided by NAO’s valuation expert (Montagu Evans) to confirm the assets not revalued were unlikely to have materially changed in value.</p> <p>We tested the revaluations in year to valuation reports and supporting calculation sheets and ensured that the calculations were correct and source data agreed with floor plans and indices.</p> <p>We identified that a desktop valuation report assessing the impact of inflation on assets not formally revalued in 2022/23 was received after the draft accounts were approved and increased the value of land and buildings by £4.581M. This misstatement was disclosed as an adjusted misstatement on page 17 of our Audit Completion Report as management have corrected the accounts. There were no other significant issues in respect of the valuation of land and buildings.</p>

Appendix A: Further information on our audit of the financial statements

Summary of uncorrected misstatements

At the time of drafting our Audit Completion Report there were no unadjusted misstatements.

The Teesside Pension Fund auditor subsequently reported to us that their audit had identified that assets in the draft financial statements used by the actuary were overstated. This was due to one known misstatement and one potential misstatement, the aggregate of which was immaterial to the Pension Fund. When apportioned to Cleveland Fire Authority to reflect the Authority's share of the Pension Fund's assets the maximum misstatement of £273,000 was also immaterial to the Authority. The misstatement was estimated and part of it was a potential misstatement rather than a known one. It also had no impact on the Authority's usable reserves.

Internal control recommendations

None were identified.

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