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Cleveland Fire Authority Members
Members of the Audit and Governance Committee
Endeavour House
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23 May 2024

Dear Members

Cleveland Fire Authority

Follow-Up Letter to our Audit Completion Report in relation to the 2022/23 Audit

As required by International Standards on Auditing (UK), I am writing to communicate an update on those matters that were marked as outstanding within our Audit Completion Report dated 11 April 2024 and to draw your attention to additional issues that have arisen since we presented our report to the Audit and Governance Committee on 19 April 2024.

Additional issues arising since we reported in April

At our presentation to the Audit and Governance Committee meeting on 19 April 2024, we reported that we had substantially completed the audit by the end of March 2024, but were unable to complete our audit and issue our audit opinion on the financial statements until we received assurance from the pension fund auditor.

We received the assurance letter from the pension fund auditor on 22 April 2024. The letter outlined several issues arising from the pension fund audit, which we needed to discuss with them to establish the impact on our client's accounts, including Cleveland Fire Authority.

The Pension Fund auditor reported to us that the asset values submitted to the actuary were overstated by £25m. In addition, there was significant doubt about a further £11.85m which may also be overstated.

Given the Authority's share of the Pension Fund assets at the year end is 0.74% of the scheme investment assets, this aggregate difference would amount to a £273,000 overstatement of pension assets in the financial statements which is not material to our opinion on your accounts.

Update on matters previously reported as outstanding

The following matters have now been resolved.

Audit area previously reported as outstanding	Status	Updated position
Pensions	Complete	<p>We have now completed our work on pensions, following the receipt of the assurance letter from the auditor of Teesside Pension Fund.</p> <p>The only matters to bring to your attention are the issues reported above. As the misstatement is not material the Authority has decided not to amend the accounts and it is described as an unadjusted misstatement /uncertainty at Appendix 1. The letter of representation provided by the Treasurer will be updated to reflect this.</p>
Officers Remuneration	Complete	<p>We have now completed our work on the officers remuneration note. There are no matters to bring to your attention.</p>
WGA	To complete after issuing audit opinion	<p>Following completion of our accounts audit, we will submit our Whole of Government Accounts (WGA) Assurance Statement for 2022/23 to the National Audit Office (NAO).</p>
Closing Procedures	Under review up to our planned sign off date	<p>At the date of this letter, we have completed most of our closing procedures. However, we will continue to review post balance sheet events up to the point where we issue our audit opinion.</p> <p>We plan to sign the audit report on 10 June 2024 following approval of the financial statements by the Authority on 7 June 2024 and provision of a signed letter of representation by the Treasurer.</p>

We are pleased to report that we have now completed our work on value for money arrangements; this work was not completed when we issued the Audit Completion Report. We have not identified any significant weaknesses to report. Our narrative commentary on the Authority's arrangements will be reported in our Auditor's Annual Report 2022/23.

For completeness, I attach a final summary of misstatements as Appendix A to this letter. All changes between the Audit Completion Report and the final position are highlighted in red. I also attach at Appendix B, the proposed audit report, which contains updated wording on value for money, following completion of our work on the Authority's arrangements for value for money, again highlighted in red.



We anticipate finalising all substantive aspects of our audit around 10 June 2024. The only exception to this is that we will once again be unable to issue our audit certificate formally concluding the audit until we receive clearance from the National Audit Office that they will not select the Authority as a sampled component for further WGA work. NAO are expected to conclude their work on WGA by the end of November 2023, so we expect to receive clearance by that date or shortly thereafter.

If you wish to discuss these or any other points then please do not hesitate to contact me.

Yours faithfully

Garvin Barker

Director
For and on behalf of Mazars LLP

Appendix A – Summary of misstatements

The issues arising between the issue of the Audit Completion Report on 11 April 2024 and the issue of this update letter are highlighted in red.

We set out on below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £29k.

The first section outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

The second section outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2022/23

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
Cr: Other Long Term Assets – Pension Fund				273
Dr: Unusable Reserves			273	
Cr: Movement in reserves Statement		273		
Dr: Actuarial (gains)/losses on pension assets	273			

Overstatement of assets in the financial statements due to misstatements identified by the pension fund auditor. Management has determined not to amend the financial statements because this adjustment is not material.

Adjusted misstatements 2022/23

		Comprehensive Income and Expenditure Statement (CIES)		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Property, Plant and Equipment			4,581	
	Cr: Revaluation reserve				4,581
A desktop revaluation of those assets not fully revalued in 2022/23 was received after the draft financial statements were approved. This increased the value of buildings by a material amount.					
2	Dr: Other Long-Term Assets			4,259	
	Cr: Other Long-Term Liabilities				14,259
The net pension surplus on the local government pension scheme was netted off the deficit arising from the firefighter pension schemes in the draft financial statements.					
3	Dr Income in Net Cost of Services	646			
	Cr Taxation and Non-Specific Grant income		646		
In the draft financial statements a general grant was misclassified as a specific grant shown in net cost of services on the CIES.					

Note: None of the above adjustments impact on the Authority's usable reserves.

In addition the following amendments have been made to disclosure notes since we presented our Audit Completion Report.

Firefighters Pension Fund Accounts Statement

An explanatory narrative was added as a footnote to the statement stating:

"Accordingly, although in accordance with the Code the statements refer to benefits payable, the fund is maintained on a cash basis and reflects benefits paid in the year."

We have highlighted in red amendments to the draft audit report previously communicated to you within our Audit Completion Report.

Independent auditor's report to the members of Cleveland Fire Authority

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of Cleveland Fire Authority ("the Authority") and its subsidiary ('the Group') for the year ended 31 March 2023, which comprise the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Movement in Reserves Statements, the Authority and Group Balance Sheets, the Authority and Group Cash Flow Statements, Firefighter Pension Fund Account Statements, and notes to the financial statements, including a summary of significant accounting policies. 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 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets ("the Code Update"), published in November 2022.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority and the Group as at 31st March 2023 and of the Authority's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update.

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 section of our report. We are independent of the Authority and Group 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, and taking into account the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Treasurer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Treasurer is responsible for the other information. 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 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.

Responsibilities of the Treasurer for the financial statements

As explained more fully in the Treasurer's Responsibilities, 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 2022/23 as amended by the Code Update, and for being satisfied that they give a true and fair view. The Treasurer is also responsible 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.

The Treasurer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update and prepare the financial statements on a going concern basis on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future. The Treasurer is responsible for assessing each year whether or not it is appropriate for the Authority and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

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.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Authority we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- inquiring with management and the Audit and Governance Committee as to whether the Authority is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Authority, which were contrary to applicable laws and regulations, including fraud.

We evaluated the Treasurer's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit and Governance Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Authority. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

We are also required to conclude on whether the Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in February 2023.

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

Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have nothing to report in this respect.

Responsibilities of the Accounting Officer

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the Authority's 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 arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, and to report where we have not been able to satisfy ourselves that it has done so. 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 work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

This report is made solely to the members of Cleveland Fire Authority as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 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 members of the Authority 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 members of the Authority as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack.

[Signature]

Gavin Barker
Key Audit Partner
For and on behalf of Mazars LLP

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10 June 2024 *[planned sign off date, subject to confirmation]*