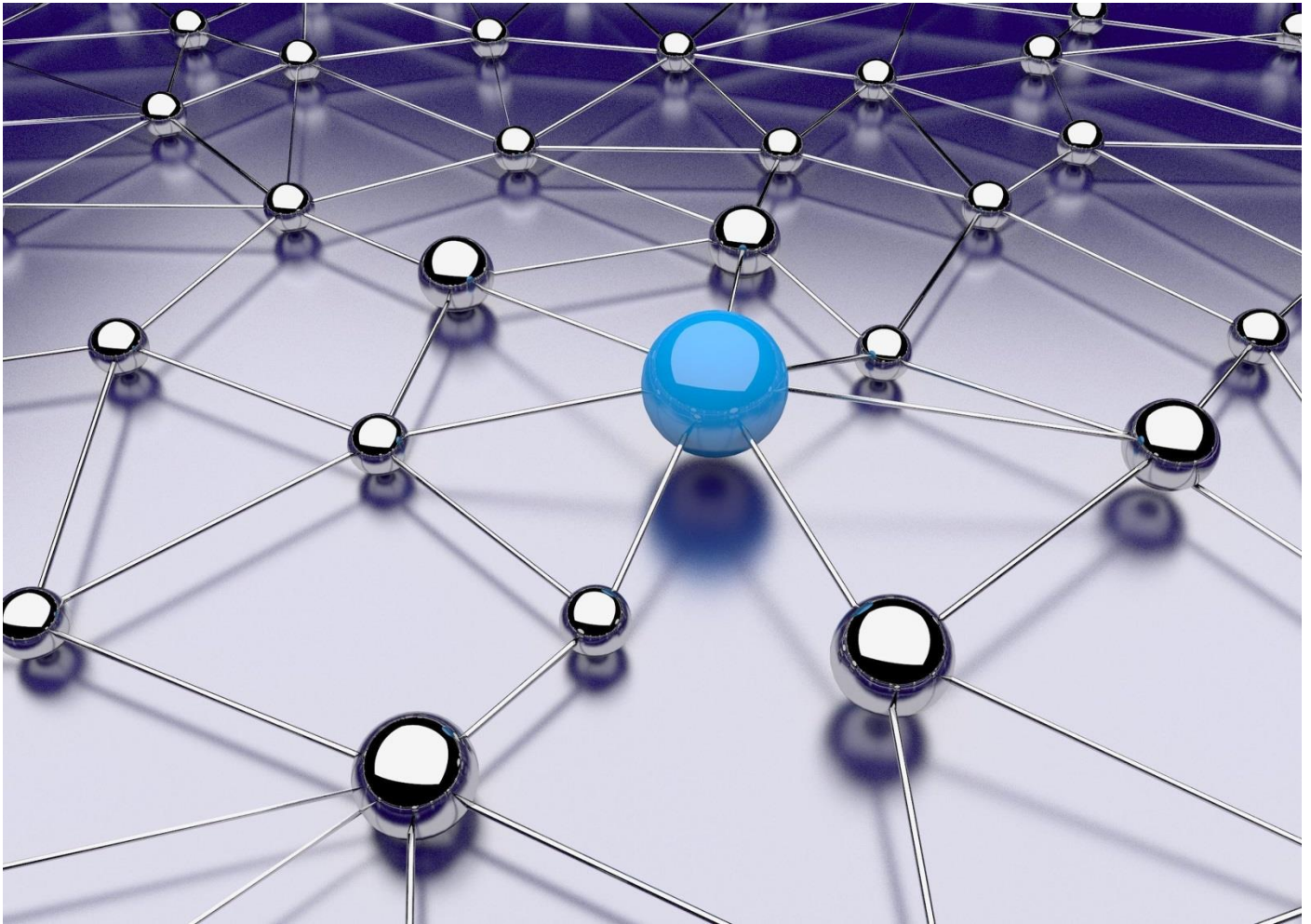


Annual Audit Letter 2015/16

Cleveland Fire Authority



October 2016

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Audit and Governance Committee Members
Cleveland Fire Authority
Fire Brigade Administration and Technical Hub
Endeavour House, Queens Meadow
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18 October 2016

Dear Members

Annual Audit Letter 2016

I am delighted to present to you Cleveland Fire Authority's (the Authority's) Annual Audit Letter. The purpose of this document is to summarise the outcome of our audit of the Authority's 2015/16 annual accounts and our work on the value for money conclusion.

We carried out the audit in accordance with the Code of Audit Practice for Local Government bodies issued by the National Audit Office and delivered all expected outputs in line with the timetable established by the Accounts and Audit Regulations 2015.

2015/16 has been another challenging year for the Authority and like most other authorities across the country Cleveland Fire Authority made some tough decisions on its spending priorities and plans. We reflect on these matters in the value for money and future challenges sections of this letter.

Given the difficult circumstances we were pleased to issue an unqualified opinion on the statement of accounts and an unqualified value for money conclusion.

I would like to express my thanks for the assistance provided by the Authority's finance team, senior officers and the Audit and Governance Committee, as well as the accountancy team providing services from Hartlepool Borough Council. The continued constructive approach to our audit is appreciated.

If you would like to discuss any matters in more detail then please do not hesitate to contact me or the engagement manager Ross Woodley on 0191 383 6300.

Yours faithfully

Mark Kirkham
Mazars LLP

Contents

| | |
|------------------------------|---|
| 01 Key messages | 3 |
| 02 Financial statements..... | 4 |
| 03 VFM conclusion | 6 |
| 04 Future challenges | 8 |
| 05 Fees | 9 |

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies 2015-16' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to Members or officers are prepared for the sole use of the Authority and we take no responsibility to any Member or officer in their individual capacity or to any third party.

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01 Key messages

Our Annual Audit Letter provides a summary of our work and findings for the 2015/16 audit period for Members and other interested parties.

We reported the detailed findings from our audit work in our Audit Completion Report for Cleveland Fire Authority which was presented to the Executive on 30 September 2016. The key conclusions for each element of our work are summarised below.

Our audit of the statement of accounts

We issued an audit report including an unqualified opinion on the Authority's financial statements on 30 September 2016.

Our VFM conclusion

We carried out sufficient, relevant work, in line with the National Audit Office's guidance, so that we could conclude on whether you had in place, for 2015/16, proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We issued an unqualified VFM conclusion on 30 September 2016.

Whole of Government Accounts (WGA)

We reported to the National Audit Office (NAO), as the auditor of central government departments, that your activity was below the threshold set by the NAO meaning that we were not required to review the WGA return this year.

Our other responsibilities

As the Authority's appointed external auditor, we have other powers and responsibilities as set out in the Local Audit and Accountability Act 2014. These include responding to questions on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. We did not receive any questions about the accounts or valid objections in relation to your 2015/16 accounts from local electors, nor did we exercise our wider reporting powers.

02 Financial statements

Audit of the financial statements

We audited your financial statements in line with auditing standards and we reported our detailed findings to the meeting of the Executive on 30 September 2016. We issued an audit report, including an unqualified opinion, on the statement of accounts on 30 September 2016.

Risk and materiality

Our work on your financial statements aims to provide reasonable assurance that your accounts are free from material misstatement. The assessment of materiality is, therefore, a key part of our work and we specify an overall materiality threshold, based on your gross revenue expenditure, together with lower materiality values for accounting entries we consider to be more sensitive, such as officer remuneration and members' allowances.

We consider materiality when planning and performing our work and in assessing the results.

At the planning stage, we make a judgement about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We updated our materiality calculation when we received the draft and final accounts and set the overall level at £607k.

In applying our view of materiality we identified the following three significant risks:

- management override of controls;
- revenue recognition; and
- accounting entries for pensions.

The first two significant risks are present at most audits and the third is present at most public sector audits, due to the nature of defined benefit pension schemes. We carried out a programme of work to address these risks which included testing journals with certain risk characteristics, testing receipts around the financial year-end and assessing the work of experts the Authority relied upon to provide estimates for pension entries. Our work did not identify any issues to report.

In completing our work we assess the scale of errors and uncertainties using our materiality calculation to determine the impact on our audit reports. We did not identify any material errors in your statement of accounts.

Preparation of the accounts

The Authority presented us with draft accounts in early June 2016, well in advance of the national deadline. Working papers and other supporting evidence were produced on a timely basis throughout the audit. Your arrangements and the responsiveness of officers enabled us to complete our comprehensive procedures efficiently, with the audit substantially complete in early July 2016. This provides a good basis for when the national audit deadline is brought forward from 30 September to 31 July in 2018.

Issues arising from the audit of the accounts

We would like to highlight the following key points:

- officers prepared good quality draft financial statements and working papers;
- there were very few errors identified; and
- the audit progressed well and there were no significant difficulties encountered. We received the full co-operation of officers.

Annual Governance Statement (AGS)

The AGS is drafted by the Authority to provide assurance to the reader over how it is managed and how it has dealt with risks in the year. We reviewed the AGS to see whether it complied with relevant guidance and whether it was misleading or was inconsistent with what we know about the Authority. We found no areas of concern to report.

03 VFM conclusion

For 2015/16, we were required to satisfy ourselves that the Authority had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We performed our work in this area in accordance with guidance set out by the National Audit Office. This required us to consider one overall criterion as set out below.

Overall criterion: *in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

Our work in this area focused on the three sub-criteria specified by the National Audit Office namely:

| Sub-criteria | Focus of the sub-criteria |
|--|---|
| Informed decision-making | <ul style="list-style-type: none">• Acting in the public interest, through demonstrating and applying the principles and values of sound governance.• Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.• Reliable and timely financial reporting that supports the delivery of strategic priorities.• Managing risks effectively and maintaining a sound system of internal control. |
| Sustainable resource deployment | <ul style="list-style-type: none">• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.• Managing and utilising assets effectively to support the delivery of strategic priorities.• Planning, organising and developing the workforce effectively to deliver strategic priorities. |
| Working with partners and other third parties | <ul style="list-style-type: none">• Working with third parties effectively to deliver strategic priorities.• Commissioning services effectively to support the delivery of strategic priorities.• Procuring supplies and services effectively to support the delivery of strategic priorities. |

As part of our work, we also:

- reviewed your Annual Governance Statement;
- considered the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities; and
- followed up our initial risk assessment reported to Audit and Governance Committee in February 2016 to ensure there were no emerging risks prior to giving our VFM Conclusion.

Financial standing

The Authority has responded well to the financial pressures it has faced, at a time of unprecedented reductions in public sector spending, and has a strong track record of delivering savings and keeping within budget. The 2015/16 revenue budget included significant savings proposals to address reduced funding and cost pressures.

The Authority achieved a small underspend in 2015/16, and delivered a significant capital programme.

| Area | Budget | Outturn | Overspend / (Underspend) | General Fund Balance at year end |
|-------------------------|----------|----------|--------------------------|----------------------------------|
| Net revenue expenditure | £27.944m | £27.940m | (£0.004m) | £1.552m (previous year £1.646m) |
| Capital expenditure | £12.480m | £7.279m | (£5.201m) | n/a |

The reported outturn is after transferring a planned underspend of £1.143M to earmarked reserves to help phase the savings proposals in line with the Medium Term Financial Plan approved in February 2016. As in previous years, a revenue underspend resulted from holding vacancies in advance of significant staff reductions. The underspend in capital expenditure reflects the re-phasing of major schemes, such as the new Administration and Technical Hub building, where the project spans several financial years.

The Authority has a range of earmarked reserves for specific plans and projects that will help deliver its priorities. These reserves provide some flexibility if the Authority needs to invest to save, for example, but there is a recognition that reserves cannot routinely be used to sustain services and the underlying budget reductions identified will need to be delivered.

Achievement of objectives

The Authority continued to deliver its service objectives in a challenging and high risk operational environment. It uses an independently assessed performance management framework to self-assess its achievement of objectives and in 2015/16 an overall assessment of 'good' was reported. This reflected some very positive outcomes in priority areas including:

- a record low for accidental dwelling fires per head of population, down 23% on 2014/15 although Cleveland already had one of the lowest rates in the country;
- a 10% reduction in fires of all type in the last five years; and
- some of the fastest emergency response times in the country.

Overall conclusion

We satisfied ourselves that, in all significant respects, the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016 and we issued an unqualified VFM conclusion.

04 Future challenges

The main challenge we see for the Authority, along with other fire and rescue authorities and the wider public sector, is the continued pressure on finances and the need to plan for further reductions in spending power which will make it increasingly difficult to maintain the existing level of emergency cover and also invest sufficiently in preventative work. We have noted how the Authority has dealt with this challenge so far and are aware of your plans for the future, including the difficult decisions that have been taken to secure the sustainability of services.

The Authority set its revenue budget for 2016/17 at £27.467m, including a 1.9% council tax increase. Within the budgeted amount there are identified savings of £1.125m, and £0.5M use of a transformation fund grant. The Authority projected a cumulative shortfall of resources of £3.982m in the medium term from 2016/17 and 2019/20, but the approved savings proposals in the CIRMP and planned use of earmarked reserves ensures that the budget is balanced throughout this period.

The challenges for the future include:

- implementing existing CIRMP actions, and in particular, the changes in duty systems;
- maximising the benefits of working with other emergency services and partners; and
- developing a new CIRMP and Medium Term Financial Plan that delivers the further savings necessary to balance the budget for the final year of the 4 year settlement and associated efficiency strategy.

We will focus our 2016/17 audit on the risks that these challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

We will also share with you relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

05 Fees

As outlined in our Audit Strategy Memorandum for Cleveland Fire Authority presented to the Audit and Governance Committee on 19 February 2016, Public Sector Audit Appointments Ltd (PSAA) sets a scale fee for our audit work. The fees applicable to our work in 2015/16 are summarised below.

| Element of work | 2014/15 fee | 2015/16 As previously reported | 2015/16 Final Fee |
|---------------------|----------------|-----------------------------------|-------------------|
| Code audit work | £38,516 | £28,887 | £28,887 |
| Group accounts work | £3,800 | £3,800 | £3,800 |
| Total | £42,316 | £32,687 | £32,687 |

All fees are shown excluding VAT

We confirm that we did not undertake any non-audit work during the year, the code audit work corresponding to the scale fee set by PSAA and the group accounts fee as previously approved by PSAA.

Should you require any further information on this letter or on any other aspects of our work, please contact:

| | |
|--------------------------------|--|
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