

Audit Completion Report

Cleveland Fire Authority – year ended 31 March 2016

1 August 2016



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1 August 2016

Dear Members

Audit Completion Report – Year ended 31 March 2016

We are delighted to present our Audit Completion Report for the year ended 31 March 2016. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks, was outlined in our Audit Strategy Memorandum which we presented to the full Authority on 1 April 2016. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks remain appropriate

We would like to take this opportunity to express our thanks to your officers for their assistance during the course of our audit and officers from Hartlepool Council who provide financial support services to the Authority.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 3836300 or mark.kirkham@mazars.co.uk.

Yours faithfully

Mark Kirkham
Partner and Engagement Lead

Mazars LLP

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01 Executive summary

Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2016 to the Audit and Governance Committee of Cleveland Fire Authority and forms the basis for discussion at the Audit and Governance Committee meeting on 26 August 2016.

Our communication with you is important to:

- share information to assist both the auditor and those charged with governance to fulfil our respective responsibilities;
- provide you with constructive observations arising from the audit process;
- ensure, as part of the two-way communication process, we gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Cleveland Fire Authority; and
- receive feedback from yourselves as to the performance of the engagement team.

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) which means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement. Section 3 of this report includes our conclusions on the significant risks that we set out in our Audit Strategy Memorandum.

We also set out details of internal control recommendations in section 4 and a summary of misstatements discovered as part of the audit in section 5.

Status and audit opinion

We have substantially completed our audit of the financial statements for the year ended 31 March 2016.

At the time of preparing this report, the following significant matters remain outstanding:

- cash and cash equivalents as one direct confirmation letter is outstanding;
- pensions as the auditors of the Pension Fund have not yet concluded their audit and communicated their findings to us;
- group accounts as the auditors of the Community Interest Company have not yet finalised their audit report on the subsidiaries accounts; and
- internal review procedures and final checks on implementation of agreed amendments.

We will provide an update to you in relation to the significant matters outstanding above through issuance of a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we anticipate:

- issuing an unqualified opinion, without modification, on your statement of accounts; and
- concluding that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We also anticipate completing our work in respect of your Whole of Government Accounts submission in line with the group instructions issued by the National Audit Office by the deadline of 30 September 2016.

Our proposed audit report is set out in Appendix B.

02 Financial highlights

The Authority set a budget for 2015/16 of £27.9M. This reflected the need to make £1.4M of savings following a reduction in government funding of 10%. Your savings were achieved and delivered a planned underspend of £1.1M by managing vacancies. The 2015/16 managed underspend has been transferred into a reserve to help implement necessary further savings in 2016/17 and 2017/18. This strong performance has allowed the Authority to balance the 2015/16 and 2016/17 budgets and the medium term financial strategy provides the basis for addressing further significant reductions in government funding up to 2019/20.

During 2015/16 the Authority also substantially completed the building of a new headquarters and a new community fire station. These significant capital projects have been completed on time and within budget and the modern buildings have removed significant backlog maintenance issues, are forecast to reduce running costs and provide improved facilities to underpin the continued delivery of services to the public.

03 Significant findings

Set out below are the significant findings from our audit. These findings include:

- Our audit conclusions regarding the significant risks outlined in the Audit Strategy Memorandum.
- Our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 6 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year.
- Any significant difficulties we experienced during the audit.

Significant risks

Management override of controls

Description of the risk

International Standards on Auditing (ISA) 240 – *The auditor's responsibility to consider fraud in an audit of financial statements* requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud. In all entities, management at various levels is in a unique position to perpetrate fraud because of the 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, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

Our testing strategy involved:

- 1 review of material accounting estimates, which may be subject to management bias, included in the financial statements;
- 2 consideration and review of unusual or significant transactions outside the normal course of business; and
- 3 testing of journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

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.

Revenue recognition

Description of the risk

In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the Authority's range of revenue sources we have concluded that there are insufficient grounds for rebuttal in 2015/16. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.

How we addressed this risk

We evaluated the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we undertook a range of substantive procedures including:

- testing receipts in March, April and May 2016 to ensure they have been recognised in the right year;
- testing adjustment journals; and
- obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger.

Audit conclusion

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 revenue being recognised in the wrong year.

Pension estimates (IAS19)

Description of the risk

The financial statements contain material pension entries in respect of the 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. This results in an increased risk of material misstatement.

How we addressed this risk

We discussed with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. 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
- considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office.

Audit conclusion

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 material estimation error in respect of pensions.

Accounting policies and disclosures

We have reviewed Cleveland Fire Authority's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting 2015/16.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. We agreed with management that in preparation for the earlier audit timetable due in 2017/18 they would provide accounts for audit by 10 June 2016 and we would substantially complete our audit by 8 July 2016. Both objectives were achieved, which would not have been possible without the excellent co-operation of your officers, officers from Hartlepool Council and the good standard of working papers.

Electors' rights to inspect the accounts

The Accounts and Audit (England) Regulations 2015 ('the regulations'), introduced new requirements in respect of publishing the financial statements and the period within which local electors may raise questions on the financial statements or make an objection to an item of account. For 2015/16 the Authority set this period as 6 June 2016 to 15 July 2016. We received no questions or objections within this period.

04 Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we considered the internal controls in place relevant to the preparation of the financial statements. This was in order to design audit procedures to allow us to express an opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

We have not identified any significant deficiencies in internal control or made any recommendations to improve controls as a result of our work this year.

Follow up of previous internal control points

Our previous audit work did not make any recommendations to improve internal control.

05 Summary of misstatements

The misstatements identified for adjustment during the course of the audit that are above the trivial level, are set out below. There were no 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.

Adjusted misstatements 2015/16

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: Group Long term debtors			46	
	Cr: Group debtors				46
	Being misclassification upon consolidation of the subsidiaries debtors				
2	Dr: Group Community Fire Safety	70			
	Dr: Group Tax expenses (subsidiaries)		14		
	Cr: Group Creditors				56
	Being adjustments made following the subsidiary audit				

Disclosure amendments

We agreed with management a few amendments to the disclosures within the financial statements to improve clarity and presentation and ensure better compliance with the Code of Practice. The most significant amendments were:

Note (s)	Issue
12	Information on the accumulated revaluation surpluses by asset category was not initially disclosed as the Code is silent on the disclosure, although the underlying accounting standard requires it.
23 (5)	The 2015/16 column was headed 2014/15
Group accounts	The 2014/15 Column of the Group Movement in Reserves Statement was not headed 'restated' although some of the figures in the audited 2014/15 figures had been revised following the conclusion of the subsidiary audit for that year.

06 Value for money

We are required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources by considering one overall criterion which is made up of three sub-criteria.

The overall criterion set out by the NAO is: *'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.'*

We issued a separate VFM Risk Assessment report to Audit and Governance Committee in February 2016. This confirmed that there were no significant risks to the VFM Conclusion but we identified a number of areas where further work was required to obtain sufficient assurance to inform our conclusion and these are set out below:

- reviewing the 2015/16 financial outturn to confirm the underspend is available as planned in the Medium Term Financial Plan to offset the impact of funding cuts being front-loaded and minimise the need for staffing reductions;
- reviewing the 2015/16 performance outturn and benchmarking data such as the National Audit Office's VFM Profile to confirm the policy of holding vacancies to create an underspend is not adversely impacting on overall performance; and
- reviewing recruitment plans for retained firefighters and the progress to date, given that £1.6M of CIRMP savings for 2017/18 and 2018/19 depend upon sufficient retained staff being recruited and trained during 2016/17 and 2017/18.

We completed the above work and found no reason to change our initial risk assessment or report concerns to you.

The following table set out our updated assessment for the proper arrangements, which we initially rated as amber risk, and shows that in both cases sufficient audit assurance has now been obtained.

Sustainable resource deployment

Proper arrangements	Arrangements at Cleveland Fire Authority	Audit Assurance obtained?
Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	<ul style="list-style-type: none"> • Financial and performance reports demonstrate a history of achieving cost reductions without adversely affecting services. • A four year balanced Medium Term Financial Plan. • Assumed savings in the MTFP are consistent with established CIRMP schemes. • The required underspend of £1.1M in 15/16 was achieved. 	Yes
Planning, organising and developing the workforce effectively to deliver strategic priorities.	<ul style="list-style-type: none"> • HR performance indicators monitored quarterly. • Workforce planning underpins CIRMP. • Savings are phased using reserves to minimise impact. • As in other Authorities, there have been difficulties in recruiting retained firefighters and £1.6M CIRMP savings depend upon transferring some whole time pumps to retained pumps. Your recruitment plans are, however, being delivered. 	Yes

We intend to issue an unqualified Value for Money conclusion as set out in Appendix B.

Appendix A – Draft management representation letter

Cleveland Fire Authority- audit for year ended 31 March 2016

This representation letter is provided in connection with your audit of the statement of accounts for Cleveland Fire Authority ('the Authority') for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Authority you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Section 151 officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Authority and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the [Authority]'s financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Authority have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Authority has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Section 151 Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Authority involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Authority's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I have disclosed to you the identity of the Authority's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Authority will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Yours sincerely

Chris Little

Section 151 Officer

Date.....

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Appendix B – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLEVELAND FIRE AUTHORITY

Opinion on the Authority financial statements

We have audited the financial statements of Cleveland Fire Authority for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Firefighter's Pension Fund Account, the Net Assets Statement and the related notes. 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 2015/16.

This report is made solely to the members of Cleveland Fire Authority in accordance with Part 5 of the Local Audit and Accountability Act 2014, and paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of the Cleveland Fire Authority as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of 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 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Cleveland Fire Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Narrative Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 24, schedule 7 of the Local Audit and Accountability Act 2014;

- we make a recommendation under section 24, schedule 7 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

We are required under section 20 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. The Code of Audit Practice issued by the National Audit Office, requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required to conclude whether the Authority has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the National Audit Office and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office, we are satisfied that, in all significant respects, Cleveland Fire Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Mark Kirkham

For and on behalf of Mazars LLP

[Address]

[Date]

Appendix C – Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

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