



# Auditor's Annual Report

## **Cleveland Fire Authority – year ended 31 March 2024**

28 February 2025

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# 01

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 2024. 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 28<sup>th</sup> February 2025. Our opinion on the financial statements was modified as we were unable to obtain sufficient appropriate audit evidence for the valuation of Local Government Pension Scheme assets ahead of the backstop date of 28 February 2025.



### Value for Money arrangements

We did not identify any significant weaknesses in the Authority’s arrangements to secure economy, efficiency and effectiveness in its use of resources. 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 2023/24 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

## Our audit of the financial statements

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 2024 and of its financial performance for the year then ended. Our audit report, issued on 28<sup>th</sup> February 2025 gave a qualified opinion on the financial statements for the year ended 31 March 2024 as we were unable to obtain sufficient appropriate audit evidence for the valuation of Local Government Pension Scheme assets ahead of the backstop date of 28 February 2025. Further detail is provided below

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 any uncorrected misstatements we identified and any internal control recommendations we made.

## Significant matters discussed with management - Local Government Pension Scheme assets and liabilities

Teesside Pension Fund provides certain information to the scheme actuary which the actuary uses in preparing a report on pension accounting disclosures for the employer bodies (the actuary report) of the Local Government Pension Scheme (LGPS). Employer bodies can then rely on the actuary’s reports when preparing their financial statements. Our audit approach includes writing to the Pension Fund auditor and requesting the completion of a programme of work at Teesside Pension Fund for the purposes of reporting to us. We take into account the findings of the Pension Fund auditor’s work in our testing of the LGPS asset and liability valuations.

In February 2025 the Pension Fund auditor communicated their intention to issue a disclaimed audit opinion on the Teesside Pension Fund financial statements for the year ended 31 March 2024. The Pension Fund auditor was able to provide us with details of the work they had performed on benefits paid and transfer values in and out. With this information we were able to conclude on the material accuracy of the pension liability in the Authority accounts. Work on asset valuations, however, was unable to be completed before the 28 February 2025 backstop date. We were unable to design and perform alternative audit procedures that would provide sufficient, appropriate audit evidence for the valuation of the defined benefit assets and we modified our audit opinion to reflect this.

## Other reporting responsibilities

| Reporting responsibility    | Outcome   |
|-----------------------------|---|
| Narrative Report            | We did not identify 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:

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**Financial sustainability** - How the Authority plans and manages its resources to ensure it can continue to deliver its services.
- 

**Governance** - How the Authority ensures that it makes informed decisions and properly manages its risks.
- 

**Improving economy, efficiency and effectiveness** - How the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

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 officers

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.

### 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 outcome 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<br>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,<br>efficiency and<br>effectiveness | 18                           | 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 Financial Sustainability

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

The Authority has an established process in place for development, approval and reporting of its Medium-Term Financial Strategy (MTFS). The MTFS is approved on an annual basis, normally in February each year, and covers a three-year period. It is published with the budget for the year ahead. The Treasurer identifies financial pressures through Executive Leadership Team, Fire Finance Network and Tees Valley Accountant meetings and builds them into the MTFS. This quantifies financial risks and links to the asset management plan and reserves strategy, which are included as appendices. We have not identified any significant financial risks that the Treasurer has not already set out in the MTFS. There is also regular monitoring and reporting against the MTFS, as confirmed by our review of minutes and supporting papers.

The MTFS for the period 2024/25 to 2026/27 was approved by the Authority in February 2024. The MTFS reflects the latest inflation forecasts, pay negotiations and the outcome of the 2023 Government Spending Assessment. The strategy is updated as 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.

Our review indicated that the MTFS for 2025/26 to 2027/28 was presented at the Executive Committee meeting on 24 January 2025. The MTFS forecasts a deficit between £0.599m and £2.254m depending on the level of Council Tax for these years. Furthermore, use of the Budget Support Fund in 2025/26 of £0.376m defers this deficit to 2026/27 and means that a forecast deficit of between £0.599m and £1.675m will need to be addressed in 2026/27 and 2027/28. The MTFS is expected to be presented and approved by the Authority in February 2025, and we will consider this in more detail as part of our work on our 2024/25 Value for Money commentary.

For the financial year 2023/24, the Authority reported an underspend of £0.260m, despite rising inflation and general economic uncertainty. The Q3 forecast, presented at the February 2024 Audit and Governance Committee, was a £0.264m underspend which, when compared against the actual outturn, evidences that the forecast was accurate and shows the performance monitoring processes at the Authority working effectively. The Authority has a good record of delivering against budget each year, and our review has not highlighted any items which would cast significant doubt on the Authority's MTFS assumptions or on their overall financial

performance.

The level of general fund balances and earmarked reserves available to the Authority as at 31 March 2024 has increased to £13.968m, compared to a balance of £12.145m as at 31 March 2023. The level of general fund balances has increased from £1.637m to £1.897m, which is line with the agreed minimum level of 5% of the Authority's net budget provision.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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

As noted above, the MTFS recognises the risks and uncertainties facing the Authority and they have considered the impact of changes in assumptions including pay and inflation, council tax and service grants. Whilst there are some gaps in the MTFS in later years, the Authority regular reports on options to balance the MTFS although it recognises that some of these options would be more difficult to implement than others. The Authority has a positive 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 19. 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 2023/24.

The January 2024 Medium Term Financial Strategy updates the scenario analysis and indicates that the 2024/25 budget is balanced after the use of reserves and one-off funding of £0.4m. However, a funding gap of between £0.8m and £1.7m now exists for 2025/26 and 2026/27. Although the Authority can use the budget support fund to postpone savings until 2027/28 and the budget gap is slightly lower than in the Resource Strategy, the Authority has identified that there is now little scope for operational savings until retained availability and sickness are significantly improved.

Accordingly, we do not regard the Authority's reliance on reserves in years two and three of the MTFS as evidence of a significant weakness in arrangements. 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 MTFP and a credible plan will be developed to achieve financial sustainability once the Budget Support Fund has been used.

# VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria – continued

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

Our review provides assurance that the MTFS continues to be based on reasonable assumptions available at the time of approving the Plan. The MTFS is regularly reviewed, by both the Audit and Governance Committee and also the Fire Authority, as evidenced through our review of minutes. The reports include considering of the main assumptions, and there is regular budget monitoring including quarterly forecast of outturn reports which support the identification of in-year pressures, and reports whether savings are being achieved.

We have not identified evidence of significant short-term measures. Our review of the outturn report as well as the financial statements has not highlighted any apparent reliance on significant one-off accounting measures. Furthermore, our review of the MTFS has not identified significant one-off measures to balance the budget.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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

The MTFS is underpinned by workforce planning and capital programmes and takes into account risks arising during the year and planning assumptions within the Community Risk Management Plan (CRMP).

The Authority's CRMP was approved in March 2023, covering a 4-year period to 31 March 2026. The CRMP sets out the Authority's:

- operating environment
- vision, strategic goals, aims and associated outcomes
- risk assessment outcomes
- medium term financial position
- services, plans and proposals to 2026 to manage its risks

There is further reporting and monitoring against the progress of the plan, as evidenced from our review of meetings. For example, there was a report taken to the Fire Authority meeting in October 2023 which sets out progress on the implementation of the Community Risk Management Plan (CRMP) 2022-26, and specifically the key Service Plan 2023/24 improvement actions.

The CRMP recognises the risks and uncertainties facing the Authority in terms of cost pressures, future funding arrangements, volatile income levels and potential variations in the costs of the delivery of demand led services. Our review of the MTFS and associated assumptions identified that a sensitivity analysis is undertaken to determine the impact of changes in the key assumptions. The Authority recognises that it faces a number of significant pressures including uncertainty over the long-term funding arrangements from Government and increased pay demands and inflation.

The Audit and Governance Committee and Fire Authority consider the updated financial position at various stages throughout the year and allows for Member scrutiny and challenge. The financial plans for 2023/24 and 2024/25 were considered in February 2023 and February 2024 respectively. The MTFS which was approved in February 2024 was based on a number of assumptions which will be reviewed and updated during the preparation of the 2025/26 budget and MTFP.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

### How the Authority identifies and manages risks to financial resilience

The Authority undertakes substantial work to understand possible future impacts on the budget. The medium-term budget projections consider various budget pressures, such as pay and price increases, the revenue implications of the capital programme and other pressures. Our review of the financial plan shows that there is no evidence that assumptions are unrealistic or that reserves are below the minimum required. The £1.9m general fund reserves reflect the S151 Officer's financial risk assessment and represent 5% of budget. There have been no significant overspends or unplanned use of reserves in recent years. This covers a range of risks noted in the self-assessment but the most significant risks regarding the funding review and pensions are covered by the Budget Support Fund.

We confirmed the Authority has an established risk management framework and the Audit and Governance Committee receives regular risk management updates. The risk register contains a critical risk and remedial action regarding the financial position and is monitored quarterly. These reports contain evidence of a clear summary of the Authority's performance, detailing significant variances and providing adequate explanation of the causes.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

# VFM arrangements

## Governance

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



# VFM arrangements – Governance

## Overall commentary on Governance

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

The Authority has a framework of written procedures and controls. Central to these are detailed rules for decision making, and rules of procedure, including; a Constitution, Standing Orders, Contract Procedure Rules, Financial Regulations, Member and Officer Codes of Conduct, and a Whistleblowing Policy. Included within the Authority Constitution, Cleveland Fire Authority has approved and adopted a Code of Corporate Governance, consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government.

The Authority operates a risk management framework which is linked to the achievement of its strategic priorities and designed to support its decision-making processes and protect the Authority's reputation and assets. This creates a framework within which risks are identified and evaluated prior to mitigation plans being put in place. The Audit and Governance Committee has responsibility for providing independent assurance of the performance and risk management framework and associated control environment. This includes monitoring and reviewing the risks, control and governance processes and associated assurance processes to ensure internal control systems are effective and that policies and practices are in compliance with statutory and other regulations and guidance.

The role of the Audit and Governance Committee also includes considering the work of External Audit, Internal Audit and Finance Management and making recommendations concerning relevant governance aspects of the Constitution.

The Authority has a service level agreement with Hartlepool Borough Council for the provision of internal audit and counter-fraud services. 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. The Internal Audit Plan 2024/25 was reported to Audit and Governance Committee in February 2024. We have reviewed the Internal Audit Plans for 2023/24 and 2024/25 and confirmed planned work addresses the expected areas with annual coverage of key financial controls.

At the June 2024 Audit and Governance Committee, the Head of Internal Audit issued their Internal Audit Outturn Report 2023/24, providing 'reasonable assurance' and noting that 'From the work undertaken during the year 2023/24, Internal Audit has reached the opinion that key systems are operating soundly and that there is no fundamental breakdown in controls resulting in material discrepancy'. This is consistent with the satisfactory assurance opinion given in the prior year. We have reviewed the Internal Audit Report and

identified no matters to indicate a significant weakness in arrangements.

As well as the Annual Internal Audit Opinion and Report which gives an overall assurance rating over the period, our review of minutes also evidenced that there was regular reporting of progress against the plan throughout the period. 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 review of these reports has not identified any matter to indicate a weakness in the Fire Authority's arrangements.

Our attendance at Audit and Governance Committee 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.

The Authority also has a Corporate Risk Register in place which provides a summary of the high-level risks facing the Service. 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. Our review of the risk register, along with the reports and review of minutes of meetings where the risk register is reported, has not highlighted any significant weaknesses in the Authority's arrangements. 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.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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

The Authority's Medium Term Financial Strategy includes the identification and evaluation of risks to the Authority's finances and is developed in parallel to the budget for the following year and setting of the precept. We have reviewed the budget setting arrangements through observation and discussions with officers. The annual budget setting process remains consistent year on year, and the arrangements for the 2024/25 budget setting process have largely followed the arrangements in place for 2023/24. No matters have been identified indicating a significant weakness in arrangements.

# VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria - continued

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 adequate.

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 supports 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.

### **How the Authority ensures effective processes and systems are in place to ensure budgetary control**

Our audit of the financial statements did not identify any matters to indicate a significant weakness in the accuracy of the financial information reported or the process for preparing the accounts. It is our experience that management takes action to address audit matters in a timely and appropriate manner.

We have reviewed the Authority's minutes and confirmed there was regular reporting of the financial and performance position during the 2023/24 financial year. This included detail of movements in the budget and forecast outturn between quarters. The reports detailed the in-year pressures as well as planned mitigations. The outturn position was not significantly different to that reported to Members during the year.

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.

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.

Our work did not identify any evidence to indicate a significant weakness in arrangements

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

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

The Constitution sets out how the Authority operates, how decisions are made and the procedures which are followed to help ensure that decisions are efficient, transparent, and accountable to local people. This includes the financial procedures and the scheme of delegation. Areas of potential change are identified throughout the year and the Constitution is amended on an annual basis. The Authority, as Those Charged with Governance, are fully independent of the management of day-to-day operations.

The Authority seeks to make decisions on actions, plans, resource use, forecasts, outputs, and outcomes, with a presumption for openness and, where relevant, giving reasons for keeping any decision confidential. There is evidence to demonstrate that the Authority seeks legal, financial, and other professional advice as part of the decision-making process and observes specific requirements of legislation. Furthermore, the Authority ensures that decision makers receive objective and rigorous analysis of a variety of options, indicating how intended outcomes would be achieved and highlighting associated risks, to secure best value regardless of the service delivery method. The Authority have relevant experience and knowledge to be able to perform their relevant functions. All members are provided training on their responsibilities and duties. Where gaps are identified further training is provided.

The Authority demonstrates transparency in its decision-making by:

- Ensuring that decisions are made in public and recording those decisions and relevant information and making them available publicly; and
- Having rules and procedures which govern how decisions are made.

# VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria - continued

The Authority publishes the outcomes from external reviews and inspections from regulatory bodies and monitors the implementation of any recommended actions through the performance management framework.

We reviewed the Constitution, Annual Governance Statement, and other documents as part of our audit and confirmed that they were consistent with our understanding of the Authority's arrangements. From our observations at meetings 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.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

### **How the Authority monitors and ensures appropriate standards are maintained**

As noted previously, the Constitution sets out how the Authority operates, how decisions are made and the procedures which are followed to ensure that decisions are efficient, transparent, and accountable to local people. The Authority has in place a framework of written procedures and controls. Central to these are detailed rules for decision making, and rules of procedure, including; a Constitution, Standing Orders, Contract Procedure Rules, Financial Regulations, Member, Officer Codes of Conduct, and a Whistleblowing Policy.

The Authority has a separate Anti-Fraud and Corruption Policy which sets out detailed policies and procedures to prevent and detect fraud. As detailed in the Internal Audit report the national fraud initiative work was 'satisfactory' with no recommendations raised.

We did not identify any areas of significant non-compliance with the CIPFA Code in terms of the financial statements.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

# 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 Improving Economy, Efficiency and Effectiveness

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

There are established processes in place for reviewing financial and performance information and using this to inform areas for improvement. Forecast of Outturn reports to the Audit and Governance Committee highlight variances for discussion including both revenue and capital. In addition, the Authority undertakes periodic budget revisions which identify where there are under / overspends and highlight mitigating activity where appropriate. Areas of adverse performance feed into the Authority's risk register where relevant. Our review of the risk register and attendance at the Audit and Governance Committee confirms that it covers areas such as MTFS assumptions, service transformation savings, sufficiency of funding.

The Authority's Community Risk Management Plan (CRMP) includes three corporate goals; one of which is 'efficient, sustainable resources'. This includes making appropriate use of public money and delivering value for money. The CRMP 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.

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

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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

The Authority is subject to review by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS). The HMICFRS assessment examines the Service's effectiveness, efficiency and how well it looks after its people. The most recent report was published in January 2023 and covered the following criteria:

**Effectiveness** - How effective is the fire and rescue service at keeping people safe and secure from fire and other risks?

**Efficiency** – How efficient is the fire and rescue service at keeping people safe and secure from fire and other risks? and

**People** - How well does the fire and rescue service look after its people?

The Authority was given an overall rating of good across each of the three areas, which is consistent with the previous inspection. Furthermore, all 11 sub-scores were rated as good, which is a slight improvement from the previous inspection in which one of the 11 sub-categories was rated as 'requires improvement'.

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."*

Through discussions with the Authority, we are aware that they were subject to a further review in October 2024. At the time of drafting this report, the draft inspection report and findings had not yet been shared by HMICFRS. We will continue to liaise with officers once the report has been published, and this will be considered in more detail as part of our work on our 2024/25 Value for Money commentary.

Our work for 2023/24 did not identify any evidence to indicate a significant weakness in arrangements

# VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

### **How the Authority ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives**

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 some other fire and rescue authorities.

The Authority recognises in its CRMP 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 pursues collaboration opportunities with other neighbouring Police, Ambulance and other Fire Services. The Authority is part of a regional collaboration group which includes an agreement to share specialist appliances and promote additional opportunities for collaboration. Partnerships appear to be working well as evidenced by the performance monitoring reports

Our work did not identify any evidence to indicate a significant weakness in arrangements.

### **Where the Authority commissions or procures services, how it assesses whether it is realising the expected benefits**

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 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. In previous years the Treasurer was shared with Hartlepool Borough Council, with a service level agreement committing him to work on the Fire Authority one day a week. When the Treasurer left his role with the Council, the Fire Authority insourced the Treasurer's services by employing him directly on a part-time basis.

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

## Other reporting responsibilities

# 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. As in previous years, we anticipate a significant delay before we will be able to issue our 2023/24 audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component

Audit fees and other services

# Audit fees and other services

## Fees for our work as the Authority’s auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Governance Committee in November 2024. Having completed our work for the 2023/24 financial year, we can confirm that our fees are as follows:

| Area of work  | 2023/24 fees | 2022/23 fees |
|---|--------------|--------------|
| Planned fee in respect of our work under the Code of Audit Practice (scale fee set by PSAA)   | £96,153      | £30,279      |
| Recurring increases in the base audit fee arising from regulatory pressures (as originally agreed in the 2019/20 audit)   |              | £1,278       |
| Additional fees in respect of new VFM approach (recurring, as agreed from the 2020/21 audit)  |              | £5,000       |
| Additional fees in respect of new ISA540 requirements in relation to Accounting estimates and related disclosures (recurring, as agreed from the 2020/21 audit)   |              | £1,900       |
| 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) | TBC*         | £5,000       |
| Additional work in relation to review of the LGPS pension asset ceiling calculations – not recurring  |              | £1,000       |
| Total fees  | £TBC         | £44,457      |

*\*Any additional fees are subject to management and PSAA approval.*

## Fees for other work

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

# Appendices

Appendix 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 opinion on the financial statements during our risk assessment. The table below summarises these risks, how we responded and our findings

| Risk  | Our audit response and findings   |
|---|---|
| <p><b>Management override of controls</b></p> <p>In all entities, 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, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p> | <p><b>How we addressed this risk</b></p> <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"><li>• accounting estimates impacting amounts included in the financial statements;</li><li>• consideration of identified significant transactions outside the normal course of business; and</li><li>• journal entries recorded in the general ledger and other adjustments made in preparation of the financial statements</li></ul> <p><b>Audit conclusion</b></p> <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> |

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

## Significant risks and audit findings (continued)

| Risk  | Our audit response and findings   |
|---|---|
| <p><b>Valuation of the Defined Benefit Pension Liability / Asset</b></p> <p>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.</p> <p>This results in an increased risk of material misstatement.</p> | <p><b>How we addressed this risk</b></p> <p>In relation to the valuation of the Authority’s defined benefit pension liability we:</p> <p>Critically assessed the competency, objectivity and independence of the Teesside Pension Fund’s Actuary, Hymans Robertson, and the Firefighters Pension Scheme Actuary, Aon;</p> <p>For the Local Government Pension Scheme (LGPS), liaised with the auditors of the Teesside Pension Fund to obtain confirmation that the controls are designed and implemented appropriately. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate;</p> <p>Reviewed the appropriateness of the Pension Asset (LGPS) and Liability valuation methodologies applied by the Pension Fund Actuaries, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office;</p> <p>Agreed the data in the IAS 19 valuation reports provided by the Funds’ Actuaries for accounting purposes to the pension accounting entries and disclosures in the Authority’s financial statements; and</p> <p>Ensure all required disclosures were reflected in the accounts and relevant notes.</p> <p><b>Audit conclusion</b></p> <p>The draft financial statements were prepared by the statutory deadline of 31 May 2024, however at this point the Authority did not have sufficient information from the actuary that was required to calculate the IFRIC 14 asset ceiling restriction. As such, an adjustment of £7.353m has been made to the LGPS (funded asset) per the draft financial statements to restrict it to a £0.051m liability.</p> <p>Furthermore, the auditor of the Teesside Pension Fund issued a disclaimed audit opinion for the year ended 31 March 2024. The Pension Fund auditor was able to provide us with details of work they had performed on benefits paid and transfer values in and out and this information allowed us to conclude on the material accuracy of the pension liability. Our review of the Pension Fund auditor response identified a difference between the benefits payable figure used by the Actuary in their calculation (£1.173m) and the actual benefits payable per the Teesside Pension Fund (£1.444m). Given the amount of the difference, £0.271m, is above triviality but not material management have determined that an adjustment to the disclosure in note 34 is not required. There is no impact on the balance sheet.</p> <p>Work on asset valuations was unable to be completed before the 28 February 2025 backstop date and, as a result, we were unable to obtain sufficient, appropriate audit evidence to conclude our work on the valuation of the defined benefit assets and modified our audit opinion to reflect this.</p> |

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

## Significant risks and audit findings (continued)

| Risk  | Our audit response and findings  |
|---|--|
| <p><b>Valuation of the Property, Plant and Equipment</b></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 Property, Plant and Equipment (PPE).</p> <p>The Authority employs a valuation expert to provide information on valuations, however, there remains a high degree of estimation uncertainty associated with the (re)valuations of PPE due to the significant judgements and number of variables involved.</p> | <p><b>How we addressed this risk</b></p> <p>We evaluated the design and implementation of any controls which mitigate the risk. This included liaising with management to update our understanding on the approach taken by the Authority in its valuation of land and buildings. We also:</p> <ul style="list-style-type: none"><li>critically assessed the Authority's arrangements for ensuring that land and buildings valuations are reasonable and not materially misstated;</li><li>critically assessed the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by valuers;</li><li>consider the competence, skills and experience of the valuers and the instructions issued to the valuers;</li><li>substantively tested revaluations, including critically reviewing the Authority's own consideration of assets not revalued in the year and why they are not materially misstated; and</li><li>where necessary, performed further audit procedures on individual assets to ensure the basis of valuations is appropriate.</li></ul> <p><b>Audit conclusion</b></p> <p>Our audit work has provided the assurance we sought and has not identified any material issues to bring to your attention. We have however identified an internal control deficiency regarding the indices used in the Valuer's calculation in comparison to the effective date of valuation per the Valuer's report.</p> |

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

## Summary of unadjusted misstatements

|  | Details of adjustment   | Assets | Liabilities | Equity | CIES  |
|--|---|--------|-------------|--------|-------|
|  |   | £000s  | £000s       | £000s  | £000s |
| 1  | Dr: Pension Liability   |        | 271         |        |       |
|  | Cr: Pension Asset   | -271   |             |        |       |
|  | Our review of the Pension Fund auditor response identified a difference between the benefits payable figure used by the Actuary in their calculation (£1.173m) and the actual benefits payable per the Teesside Pension Fund (£1.444m). Given the amount of the difference, £0.271m, is above triviality but below performance materiality. For this reason, no adjustment has been made within the accounts. |        |             |        |       |
| Aggregate effect of unadjusted misstatements |   | -271   | 271         | -      | -     |

## Internal control observations

### Description of deficiency

Our work on property valuations highlighted that the valuation report reported a valuation date of 1 April 2023. Our review of valuations noted that the accounting treatment also aligned with a 1 April 2023 valuation, however the valuation indices used in detailed valuations were closer to the 31 March 2024 than 1 April 2023. We have estimated the impact of the indices used and concluded that the difference for the 2023/24 valuations would not result in a material misstatement. There would also be an impact on the depreciation charge, although we have concluded that this would be trivial for 2023/24.

### Potential effects

Using BCIS indices at different point to the effective date of valuation may lead to material misstatement in the financial statements

### Recommendation

We recommend management revisit valuation dates and ensure that they are consistent with the dates per the indices used in the valuation calculations.

### Management response

Our Valuer has confirmed that it is good valuation practice to use the most up to date indices at the time of carrying out the valuation. As part of the audit process after the year end the Valuer revisits all DRC revaluations to ensure they haven't materially changed since his valuation assessment thus ensuring that the final published accounts are not materially misstated. As most revaluations are carried out in February the valuation date will be amended to 31 March.

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