



The Annual Audit Letter for Cheshire Fire Authority

Year ended 31 March 2020

11 December 2020



Contents



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Section

1. Executive Summary
2. Audit of the Financial Statements
3. Value for Money conclusion

Page

3
5
11

Appendices

- A Reports issued and fees

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Cheshire Fire Authority (the Authority) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Authority and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Authority' as those charged with governance in our Audit Findings Report on 7 October 2020.

Our work

Materiality

We determined materiality for the audit of the Authority's financial statements to be £851,000, which is 2% of the Authority's gross cost of services.

Financial Statements opinion

We gave an unqualified opinion on the Authority's financial statements on 27 November 2020.

We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Authority's land and buildings and the property assets of its share of the Cheshire Local Government Pension Fund fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Authority's financial position and its income and expenditure for the year.

Whole of Government Accounts (WGA)

We completed work on the Authority's consolidation return following guidance issued by the NAO.

Use of statutory powers

We did not identify any matters which required us to exercise our additional statutory powers.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Authority's financial statements (section two)
- assess the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Authority's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Value for Money arrangements	We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Authority on 27 November 2020.
Certificate	We certified that we have completed the audit of the financial statements of Cheshire Fire Authority in accordance with the requirements of the Code of Audit Practice on 27 November 2020.

Working with the Authority

The Outbreak of Covid 19, the subsequent lockdown after March and the on-going restrictions to enable people to work in a Covid safe manner, has a significant effect on the Authority and on the audit. Fortunately, the Authority was able to move quickly to safe remote working for non front-line staff, rolling out IT equipment and solutions while not losing operational control. We have worked with the Authority, adapting our systems to support remote auditing and while some aspects of the audit have been more time consuming than would normally be the case, we have been able to facilitate virtual audit verification of processes, transactions and balances. We have been able to hold Skype meetings with officer and to attend virtual meetings of the Authority.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Authority's staff .

Grant Thornton UK LLP
December 2020

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Authority's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Authority's financial statements to be £851,000, which is 2% of the Authority's gross cost of services. We used this benchmark as, in our view, users of the Authority's financial statements are most interested in where the Authority has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £5,000 to reflect the public interest in this figure.

We set a lower threshold of £42,000, above which we reported errors to the Authority in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Authority and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Authority's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected this to have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including:</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical front-line duties affecting the quality and timing of the production of the financial statements, and the evidence we could obtain. • Volatility of financial and property markets increasing the uncertainty of assumptions applied by management to asset valuation and receivable recovery, and the reliability of evidence we could obtain to corroborate management estimates. • Financial uncertainty requiring management to reconsider financial forecasts supporting their assessment of going concern; and • Disclosures within the financial statements requiring significant revision to reflect the unprecedented situation and its impact. • We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement. 	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Authority's property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management judgements; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment. 	<p>The results of our work concluded that appropriate arrangements have been put in place to manage the impact of Covid 19.</p> <p>We noted that the external valuer of land and buildings reported a material valuation uncertainty within their report. This uncertainty was referenced in our audit report as an emphasis of matter paragraph. This is not a modification or qualification and is consistent with other audited bodies.</p> <p>Similarly, the auditor of the Local Government Pension Fund communicated to us that the financial statements of the fund will disclose a material uncertainty relating to the valuation of property investments. Management amended the financial statements to include reference to this in the updated financial statements. This is also included as an emphasis of matter within the audit report.</p> <p>We did not identify any further material uncertainties in relation to Covid-19 that would result in a material misstatement in the financial statements.</p>

Audit of the Financial Statements

Significant Audit Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The Authority revalues its land and buildings on a five-yearly basis. In the intervening years, such as 2019/20, to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, the Authority requests a desktop valuation from its valuation expert to ensure that there is no material difference. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>After issuing our audit plan, we became aware that the Royal Institute of Chartered Surveyors (RICS) had referred their members to VPS 3 and VPGA 10 of the RICS Red Book and the impact Covid-19 outbreak on market activity. In response valuers reported on the basis of material valuation uncertainty, noting a higher degree of caution should be attached to their valuations than is normally the case.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work, evaluated the competence, capabilities and objectivity of the valuation expert, engaged with the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met, challenged the valuer on the information and assumptions used to assess completeness and consistency with our understanding, including information we obtained independently on property and building cost trends. tested a sample of the revaluations made during the year to confirm that they properly incorporate the information and assumptions described above and that the assumptions are relevant to the individual assets, tested revaluations made during the year to see if they had been input correctly into the Authority's asset register. 	<p>We found that land values included in the financial statements had increased more than had been expected based on national trends however, we obtained appropriate assurance over the local property market to support that change.</p> <p>The valuation of operational buildings is based on their estimated Depreciation replacement Cost. The Authority uses the work of experts to help determine these values. We reviewed their methods and calculation and corroborated build costs rates used to independent sources.</p> <p>The draft financial statements did not include reference to the material valuation uncertainty. Management subsequently amended the financial statements to include reference to this, in line with the report of the valuer. We consider this disclosure to be fundamental to a reader's ability to understand the financial statements and have drawn attention to it in our audit report as an Emphasis of Matter, this does not modify our opinion on the financial statements.</p> <p>Based on completion of our procedures, we gained assurance that Authority land and building valuations are fairly stated at the year-end.</p>

Audit of the Financial Statements

Significant Audit Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>The Local Government Pension Scheme (LGPS) pension net liability The Firefighters Pension schemes liability, represent significant estimates in the financial statements.</p> <p>These estimates by their nature are subject to significant estimation uncertainty being sensitive to small adjustments in the key assumptions used.</p> <p>We therefore identified valuation of the Authority's pension fund net liabilities as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> updated our understanding of the processes and controls put in place by management to ensure the pension fund liabilities are not materially misstated and evaluated the design of the associated controls; evaluated the instructions issued by management to their expert (an actuary) and the scope of the actuary's work; assessed the competence, capabilities and objectivity of the; assessed the accuracy and completeness of the information provided to the actuary; tested the consistency of the pension fund asset and liability and disclosures in the notes to the financial statements with the actuarial report from the actuary; undertaken procedures to confirm the reasonableness of the actuarial assumptions by using the report of the consulting actuary (as the auditor's expert) and performing any additional procedures suggested within the report; requested and obtained assurances from the auditor of Cheshire Pension Fund on the controls surrounding the validity and accuracy of membership, contributions and benefits data sent to the actuary by the pension fund and the valuation of Cheshire Pension Fund assets, and tested the data provided to the actuary of the Fire Fighter Pension Fund. 	<p>In July 2020 HM Treasury published a consultation on the proposed remedy to the McCloud/Sergeant legal case. Management consulted the actuaries who advised that if the consultation was adopted, assumptions behind the IAS 19 calculations would change. Management therefore requested updated valuations of the net pension liability, which resulted in a calculated £2.4m reduction in the overall net pension liability. Management adjusted the financial statements to reflect the revised valuation on the basis that the movement was material and based on the best and latest available information to support the estimated liability.</p> <p>Based on clarified guidance we received, our view was that the publication of the remedy represented a non-adjusting post balance sheet event because it is a consultation document only. Following discussion with management and considering their rationale for adjusting the financial statements, we concluded that the basis for adjusting was reasonable and that disclosures in the financial statement were appropriate.</p> <p>The auditor of the Cheshire Local Government Pension Fund informed us that the financial statements of the pension fund included reference to a material uncertainty due to Covid 19 in the valuation of property investments. In response, management updated the financial statements to disclose this matter given the Authority has an attributable share of these assets. This was also highlighted in our emphasis of matter paragraph in the audit report.</p> <p>Other than the matters identified above, our work did not identify any significant issues and we gained assurance that the net pension liability is fairly stated.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>ISA240 revenue recognition risk</p> <p>Under ISA 240 (UK) there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. The presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>As set out in our audit plan issued in April 2020, we did not consider this to be a significant risk for the Authority. We have made no change to our risk assessment in this area.</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition. • opportunities to manipulate revenue recognition are very limited as some 94% of the Authority's gross income is from taxation or government grant. • the culture and ethical frameworks of local authorities, including Cheshire Fire Authority, mean that all forms of fraud are seen as unacceptable. 	<p>For the reasons set out opposite we did not consider this to be a significant risk for the Authority.</p>
<p>Management override of internal controls</p> <p>Under ISA 240 (UK) there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals. • analysed journals, determined criteria for selecting high risk unusual journals and identified and selected journals with unusual narrative. • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness against corroborative evidence. • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>Our audit work did not identified any changes to accounting policy or practise. Our audit work did not identified any issues in respect of management override of controls.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Authority's financial statements on 27 November 2020.

Preparation of the financial statements

The Authority presented us with draft financial statements in July in accordance with the agreed timescale and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit. However the impact of the Covid 19 lockdown did cause new audit challenges such as new remote access working arrangements to observe processing through financial systems, and video calling and screen sharing to confirm completeness accuracy of information produced by the entity.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Authority on 7 October 2020.

In addition to the key audit risks reported above, we reported that we were unable to complete our work due to on-going audit work at the Cheshire Pension Fund that prevented us from concluding on the net pensions liability. We subsequently received correspondence from the pension fund auditor on 10 November which allowed us to complete our work with no other issues being identified. We reported this to the Treasurer, Chief Fire Officer and the Chair of the Authority before giving our opinion.

Annual Governance Statement and Narrative Report

We are also required to review the Authority's Annual Governance Statement and Narrative Report. The Authority published its Narrative Report alongside the Statement of Accounts in accordance with statutory timetable however the Annual Governance Statement was not published until 5 August. The Authority accepted our recommendation to harmonise publication of all three statements.

Annual Governance Statement and Narrative Report (cont.)

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Authority and with our knowledge of the Authority.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Authority was below the audit threshold.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Cheshire Fire Authority in accordance with the requirements of the Code of Audit Practice on 27 November 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work. The risks we identified and the work we performed are set out overleaf.

Since the outbreak of Covid-19 the Authority has received £961k, (£794k during 2021) of additional funding from central government which has covered its additional expenditure. At the end of Quarter 2 of 2021, the Authority is projecting an annual underspend of £445k against a budget of £44,830. However as yet, it is not possible to determine what the effect of the outbreak will be on collection rates for council tax and business rates. The Authority has recognised this risk in its Medium Term Financial plan.

Overall Value for Money conclusion

We are satisfied 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 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability</p> <p>The Authority faced funding reductions, changes in the legislative framework and uncertainty about future pensions costs.</p>	<p>As part of our work we have reviewed the Authority's arrangements for:</p> <ul style="list-style-type: none"> • Monitoring and delivering the budget • Managing investments, borrowings and cash • Aligning operational needs with and financial resources • Working with other public sector bodies 	<p>The Authority again delivered a small budget surplus which has been transferred to reserves to support the capital programme in line with the strategy approved before the start of the financial year. In year reporting of operational and financial performance was effective and the Authority remains committed to working with partners across the public sector.</p> <p>The Authority has adequate arrangements in place for ensuring financial sustainability that include arrangements to make decisions on an informed basis and to work effectively with partners.</p>
<p>Covid 19</p> <p>The Covid-19 outbreak was is unprecedented circumstance which has changed the way the Authority Functions.</p>	<p>As part of our work we have reviewed the authority's arrangements for:</p> <ul style="list-style-type: none"> • Remote working of non-frontline staff. • Maintaining transactional control • Ensuring continued Governance. 	<p>The Authority put in place arrangements to enable remote working and we found no weakening in the control environment at transactional level. Although member meetings were suspended temporarily, I.T. solutions were identified and protocols established to allow remote meetings and ensure continued member oversight.</p> <p>The Authority has responded appropriately to the Covid-19 outbreak.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and confirm there were no fees for the provision of non audit services.

Reports issued

Report	Date issued
Audit Plan	29 April 2020
Audit Findings Report	7 October 2020
Annual Audit Letter	December 2020

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	27,492	31,292	27,492
Total fees	27,492	31,292	27,492

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £22,992 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Fee variations are subject to PSAA approval.

Area	Reason	Fee proposed
Pensions – IAS 19	The Financial Reporting the Authority has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,750
PPE Valuation – work of experts	As above, the Financial Reporting the Authority has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,750
Raising the bar	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	750
Original estimate of Covid impact	As reported in April, the initial outbreak of Covid19 caused us to update our planning to identify those likely to be affected.	250
Total planned variation		4,500
Additional impact of Covid 19 and other audit issues	Additional procedures required to be undertaken resulting in increased resource input	3,800
Total		8,300



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