

# Annual Audit Letter

County Durham and Darlington Fire and Rescue  
Authority  
Year ending 31 March 2019





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

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# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for County Durham and Darlington Fire and Rescue Authority and Group (the Authority) for the year ended 31 March 2019. Although this letter 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 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the Authority's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.</li></ul>
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that:</p> <ul style="list-style-type: none"><li>• The other information in the Statement of Accounts is consistent with the audited financial statements.</li></ul>
Value for Money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 31 July 2019 we reported to the group auditor in line with the requirements applicable to the Authority's WGA return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Authority.</p>

## 2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

### The scope of our audit and the results of our work

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 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Authority on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of the Authority's financial position as at 31 March 2019 and of its financial performance for the year then ended.

### Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit and Risk Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 2% of gross revenue expenditure	£919,000 (Authority) £921,000 (Group)
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£28,000 (Authority and Group)
	We have applied a lower level of materiality to the following areas of the accounts:	
Specific materiality	- Members Allowances	£1,000
	- Officers remuneration	£100,000
	- Exit Packages	£100,000

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## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Authority's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit and Risk Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p><b>Management override of controls</b> 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>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>Accounting estimates impacting on amounts included in the financial statements;</li> <li>Consideration of identified significant transactions outside the normal course of business; and</li> <li>Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>	<p>Our audit work provided the assurance we sought and did not highlight any material issues in respect of management override.</p>
<p><b>Property, plant and equipment valuation</b> The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Authority's holding of PPE. Although the Authority uses a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We therefore identified the valuation of PPE to be an area of significant risk.</p>	<p>We addressed this risk through the following procedures:</p> <ul style="list-style-type: none"> <li>Assessing the Authority's arrangements for ensuring that PPE valuations are reasonable;</li> <li>Assessing the date provided by our consulting valuer, Gerald Eve, as part of our challenge of the reasonableness of the valuations provided by the Authority's Valuer;</li> <li>Considering the competence, skills and experience of the Valuer and the instructions issued to the Valuer; and</li> <li>Performing further audit procedures to ensure the basis of valuations is appropriate including substantive testing of individual asset valuations.</li> </ul>	<p>Our work provided the assurance we sought and did not highlight any material issues.</p>
<p><b>Defined benefit liability valuation</b> 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. This results in an increased risk of material misstatement.</p>	<p>We discussed with key contacts any significant changes to the pension estimates. 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.</p>	<p>Our work provided the assurance we sought. Material amendments were made relating to the impact of the McCloud legal case on pension liabilities, which was a national issue.</p>

## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

We did not identify any deficiencies in internal control as part of our audit which required reporting.



### 3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

#### Our approach to Value for Money

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 in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Our auditor's report, issued to the Authority on 31 July 2019, stated that 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 ended 31<sup>st</sup> March 2019.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>We reviewed financial, performance and risk management reports throughout the year. We did not identify any concerns regarding the data quality or the decision making.</p> <p>We considered the aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and based on our risk-based approach, we did not identify any significant issues of exceptions in the Authority's arrangements.</p> <p>A governance framework is in place including: the Authority's Constitution which includes the Code of Conduct, Annual Governance Statement, and Code of Corporate Governance. The Code is consistent with the seven principles of good governance as identified in the CIPFA/SOLACE framework – 'Delivering Good Governance in Local Governance'.</p> <p>The Constitution sets out how the Authority operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. The Constitution includes the key roles for decision making.</p> <p>The Authority's Annual Governance Statement includes a balanced assessment of the effectiveness of the Authority's governance arrangements and identified areas for further improvement, where appropriate.</p> <p>Arrangements are in place for monitoring and managing performance at the Authority and members are regularly updated on KPIs and other performance information as part of the overall performance management framework. The Integrated Risk Management plan ensures that an integrated approach to risk management is taken through continuous consideration of financial and non-financial risks and mitigations). The Corporate Risk Register is reported during the year.</p> <p>The Authority is now subject to the HMICFRS Fire and Rescue Services Inspection Programme and Framework for England, with the main inspection fieldwork taking place in July 2019. The inspection will provide feedback on the Authority's performance and further inform decision making. We are not aware of any indicative findings at this stage.</p>	Yes

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### 3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>We considered the following aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and, based on our risk-based approach, we did not identify any significant issues or exceptions in the Authority's arrangements:</p> <p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions;</p> <p>Managing and utilising assets effectively to support the delivery of strategic priorities; and</p> <p>Planning, organising and developing the workforce effectively to deliver strategic priorities.</p> <p>Financial planning is linked with other elements of corporate and service planning through the Medium Term Financial Plan (MTFP), which is reviewed and updated annually as part of the detailed budget process. The MTFP sets out the expected resources available up to 2022/23 and the level of savings required. A balanced budget has been set for 2019/20, and although there is a total shortfall of £3 million identified in the following periods (2020/21 £0.5m, 2021/22 £1.0m and 2022/23 £1.5m), the Authority has a good track record of achieving savings and has sufficient reserves in place to manage any shortfall over the medium term.</p> <p>The Authority has been successful in achieving savings through its Service Transformation Programme which has enabled it to balance the budget whilst at the same time protecting front line services. The majority of the savings outlined in the Efficiency Plan for implementation during the period 2016/17 to 2019/20, have been achieved and the service is on track to deliver efficiency savings totalling £1.245 million which is £0.215 million more than anticipated when the Efficiency Plan was published in October 2016. The Authority has savings plans in place totalling between £2.18 million-£2.3 million from its 'Emergency Response review' and there are no plans to use reserves to balance the budget over the MTFP. Whilst the financial climate remains challenging, the Authority remains well placed to deal with this.</p> <p>There is a detailed capital programme in place, and the revenue costs associated with the capital programme have been incorporated into the MTFP.</p> <p>The leadership team provides scrutiny and challenge on financial matters through review and comment on monthly and quarterly budget and outturn positions. Action has been taken over the last few years to deliver on budget savings through reductions in staffing levels, back-office efficiencies and changes to shift patterns.</p> <p>Operational and corporate performance is monitored and managed internally via the monthly Performance &amp; Programme Board and Service Leadership Team forums. Members of the Combined Fire Authority consider performance on a quarterly basis at meetings of the Policy, Performance and Review Committee and the full Combined Fire Authority.</p>	Yes





### 3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>We considered the following aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and, based on our risk-based approach, we did not identify any significant issues or exceptions in the Authority's arrangements:</p> <ul style="list-style-type: none"> <li>a) Working with third parties effectively to deliver strategic priorities;</li> <li>b) Commissioning services effectively to support the delivery of strategic priorities; and</li> <li>c) Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul> <p>The Authority is committed to collaboration through innovation to improve services and performance and continues to explore possibilities of partnership working with the police, ambulance and other fire authorities in particular, as well as the private and voluntary sectors. The Authority has a good track record of collaboration with partners.</p> <p>A number of fire stations are shared with either the Police and/or the Ambulance Service, and in recent years the Authority has invested in and introduced a joint drone unit with Durham Constabulary. There are also positive ongoing negotiations at a senior level with North East Ambulance Service to extend Emergency Medical Response (EMR) arrangements.</p> <p>The Authority has procurement procedures in place and maintains a contract register which is published on the website. The Authority aims to deliver best value from the procurement process, driving savings where possible whilst delivering sustainable services. They endeavour to ensure that a collaborative approach is taken on a national and regional basis for the purchase of major items of fire service specific items, such as vehicles, equipment, and key services. Procurement of uniform and firefighting PPE has been undertaken as part of a regional collaboration for over 5 years.</p> <p>A Communications Strategy is in place providing access to a range of consultation methods, particularly to those groups which are harder to reach. The Authority has undertaken on-going consultation with a wide range of stakeholders on the Integrated Risk Management Plan and the budget.</p>	Yes

#### Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Authority being inadequate. In our Audit Strategy Memorandum, we reported that we had not identified any significant Value for Money risks.



## 4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below testing threshold
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Authority's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

### Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- Issue a report in the public interest;
- Make a referral to the Secretary of State where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; and
- Make written recommendations to the Authority which must be responded to publicly.

We have not exercised any of these statutory reporting powers.

### 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. We submitted this information to the NAO on 31 July 2019.

### Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Authority. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

## 5. OUR FEES

### Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Audit and Risk Committee in February 2019.

We have completed our work for the 2018/19 financial year, but at the time of producing this report, we have not yet finalised our audit fees for the year. If the final fee varies from that in the table below, we will write to the Chief Financial Officer setting out the proposed variation and any reasons for the variation, and seeking agreement to it. Any variations to the final fee will also require the approval of Public Sector Audit Appointments Limited, which manages the contracts for our work.

Area of work	2018/19 proposed fee	2018/19 final fee ***
Delivery of audit work under the NAO Code of Audit Practice	£22,235	£22,235
Plus: additional fees in respect of audit of group consolidation	£1,475	£1,475
<b>Total Audit Fees</b>	<b>£23,710</b>	<b>£23,710</b>

\*\*\* Please note that at the time of producing this report, the audit fee has not yet been finalised.

### Fees for other work

Our firm has been engaged to prepare the corporation tax returns for the two subsidiary companies of the Authority; ie. County Durham and Darlington Fire and Rescue Authority Community Interest Company and Vital Fire Solutions Limited at a cost of £900 per subsidiary (total £1,800).

We have considered the safeguards necessary to maintain the independence of the audit team.

The main safeguard is that the work is undertaken by a separate tax partner and tax team, independent of the audit team. The work will not involve management decisions, as the tax team will be processing information provided by each subsidiary, for which management is responsible. The tax affairs of each subsidiary are not complex, this work is routine and within an established framework of rules and requirements, and the financial values involved are below the materiality levels of the Authority and Group, meaning that there is a low risk of error and any errors arising are very unlikely to be significant either to the financial statements or the VFM conclusion. We are satisfied that the audit team are sufficiently independent of this work and we have complied with the required ethical standards.

# 6. FORWARD LOOK

## Financial outlook

The Authority has performed well in 2018/19, despite the significant challenges of ongoing financial pressures faced across the public sector. The Authority had total net revenue expenditure which was £184,000 in excess of the original budget set for 2018/19.

The Medium Term Financial Plan produced by the Authority, which sets out the expected resources available up to 2022/23 and the level of savings required, shows that a balanced budget has been set for 2019/20. There is a shortfall identified in the following periods to 2022/23, however work is ongoing to identify where these savings can be made in order to balance the budget moving forwards. The Authority has a good track record of achieving savings through its Service Transformation Programme which has enabled it to balance the budget whilst at the same time protecting front line services. The Authority has sufficient reserves in place to manage the risks of any shortfalls over the medium term if required.

In addition to the reduction in government funding the Authority has several other financial pressures including:

- a risk that actual pay awards for firefighters exceed the provision included in the base budgets as although there has been recent progress, settlement has not yet been reached;
- rising employer contributions to the pension schemes with uncertainty as to the extent to which the Government will fund the increased costs; and
- the continuation of a cap on the percentage to which fire authorities can increase council tax without a costly referendum.

## Operational challenges

The Authority is subject to the HMICFRS Fire and Rescue Services Inspection Programme and Framework for England, and the main inspection fieldwork for the Authority was carried out in July 2019. The inspection report is expected to be received towards the end of the 2019 calendar year. Irrespective of the grading, the Authority will need to draw up an action plan to respond to opportunities for improvement identified by HMICFRS and delivering further improvement at a time of significantly diminishing resources will be challenging.

## How we will work with the Authority

Our 2019/20 audit will focus on the risks that the challenges noted above present to the Authority's financial statements and ability to maintain proper arrangements for securing value for money.

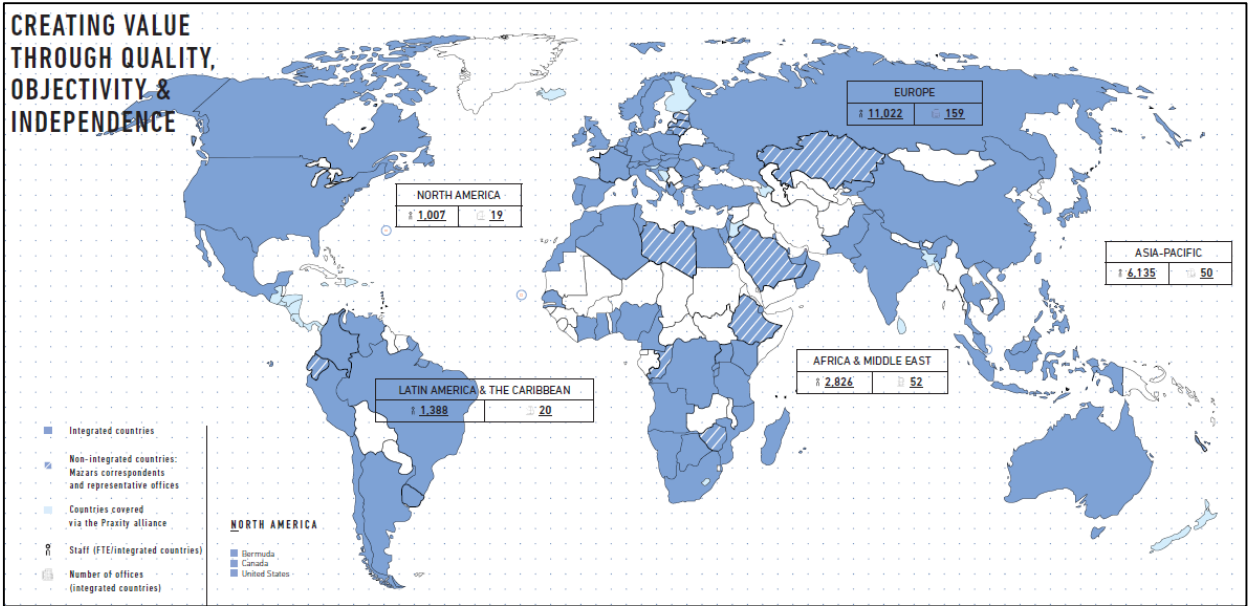
We will continue to support the Authority through our audit work and through our attendance at Audit and Risk Committee where we will inform the Committee about our progress on the audit, report our key findings and share our insight on any changes we are aware about in the sector. We will continue to offer accounting workshops to finance officers, and the audit team will continue to work with officers to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

# MAZARS AT A GLANCE

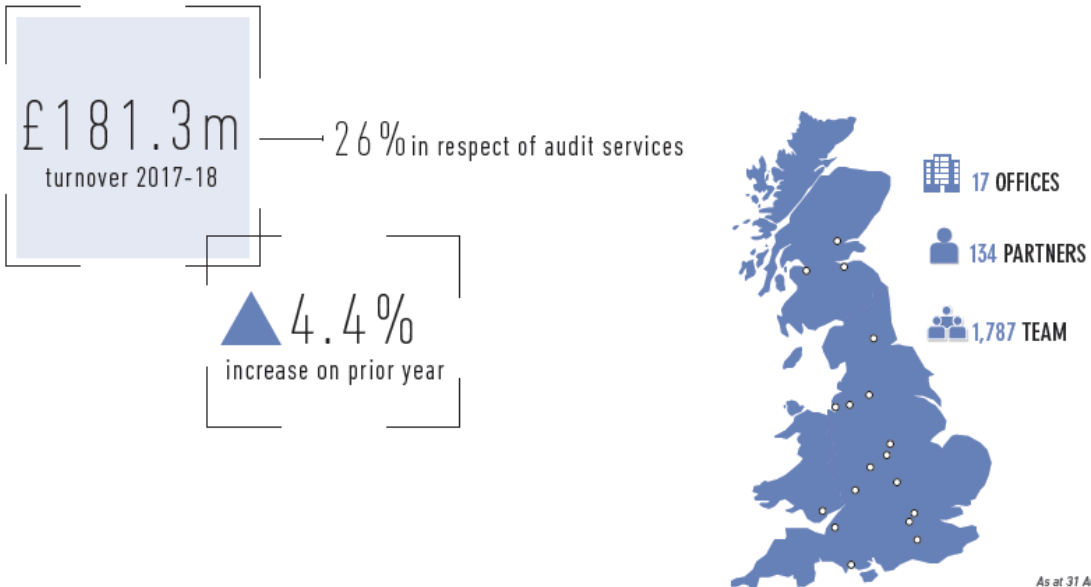
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## Mazars Internationally



## Mazars in the UK



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