



Annual Audit Letter

County Durham and Darlington Fire and Rescue
Authority

Year ending 31 March 2018



County Durham and Darlington
Fire and Rescue Authority



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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 the County Durham and Darlington Fire and Rescue Authority (the Authority) for the year ended 31 March 2018. 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 report, issued on 27 July 2018, included our opinion that the financial statements:</p> <ul style="list-style-type: none">gave a true and fair view of the Authority's financial position as at 31 March 2018 and of its expenditure and income for the year then ended; andhad been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
Other information published alongside the audited financial statements	<p>Our report issued on 27 July 2018 included our opinion that the other information in the Statement of Accounts was consistent with the audited financial statements.</p>
Value for money conclusion	<p>Our report concluded that we were satisfied that, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.</p>
Statutory reporting	<p>Our report confirmed that we did not use our powers under section 24 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 2018 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 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 materiality at different 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 for the year ended 31 March 2018:

Financial statement materiality	Our financial statement materiality was based on 2% of gross operating expenditure.	£0.670 million
Trivial threshold	Our trivial threshold was based on 3% of financial statement materiality.	£0.020 million

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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 Authority and Joint Independent Audit 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>Management override of controls</p> <p>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. Because of the unpredictable way in which such override could occur there is a risk of material misstatement on all audits.</p>	<p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"> accounting estimates impacting on amounts included in the financial statements; consideration of identified significant transactions outside the normal course of business; and journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our work provided the assurance we sought and did not highlight any material issues in respect of management override.</p>
<p>Defined benefit liability valuation</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. This results in an increased risk of material misstatement.</p>	<p>In addition to our standard audit programme we addressed this risk through the following procedures:</p> <ul style="list-style-type: none"> discussions with key contacts on any significant changes to the pensions estimates prior to the preparation of the final accounts; evaluation of management's controls for assessing the reasonableness of the figures provided by the actuaries; and consideration of the reasonableness of the actuaries outputs, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office. 	<p>Our work provided the assurance we sought and did not highlight any material issues. Our work identified no indication of material estimation error in respect of pensions.</p>
<p>Valuation of buildings</p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Authority's buildings.</p> <p>Although the Authority employs a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of buildings because significant judgements and a number of variables are involved in providing revaluations.</p>	<p>We addressed this risk by :</p> <ul style="list-style-type: none"> considering the Authority's arrangements for ensuring that buildings values are reasonable and engaging our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Authority's valuer. We also assessed the competence, skills and experience of the valuer; and performing further audit procedures on individual assets to ensure that the basis and level of valuation was appropriate. 	<p>Our work provided the assurance we sought and did not highlight any material issues.</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 identified no deficiencies in internal control as part of our audit which required reporting.

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3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Our audit approach

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; and
- working with partners and other third parties.

Our report, issued to the Authority on 27 July 2018, stated 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 31st March 2018.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>The Authority has approved a code of corporate governance, which is consistent with the seven principles of good governance as identified in the CIPFA/SOLACE 2016 Framework –“Delivering Good Governance in Local Government”. 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 also includes a Code of Conduct for employees and Members including the key roles for decision making. Other schemes and policies are reviewed annually.</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. The Service Leadership Team and Audit and Risk Committee review the governance issues contained within the Annual Governance Statement.</p> <p>Strategic priorities are revisited on a regular basis but formally through the annual budget process and annual revision to the Medium Term Financial Plan which brings together considerations of operational needs over the medium term and funding prospects.</p> <p>The Fire and Rescue Service National Framework document places a responsibility on all fire and rescue authorities to produce and consult on their Integrated Risk Management Plan (IRMP) which is incorporated into the Three Year Strategic Plan. The Authority has been proactive in seeking local people’s views on a range of issues such as service priorities and expected levels of local station coverage as part of the Plan.</p> <p>Performance reporting is embedded within the Authority’s culture and Members are regularly updated on key performance indicators and other performance information as part of the overall performance management framework. Continuous consideration of financial and non-financial risks (and mitigations) ensure that an integrated approach to risk management is taken, as represented by the Integrated Risk Management Plan. The Corporate Risk Register is reported during the year.</p> <p>The Authority will be subject to the HMICFRS Fire and Rescue Services Inspection Programme and Framework for England from 2018/19 which will provide feedback on the Authority’s performance and further inform decision-making.</p>	Yes

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3. VALUE FOR MONEY CONCLUSION CONTINUED

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>Financial planning is linked with all 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. This sets out the expected resources available up to 2021/22 and the level of savings required.</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.</p> <p>The leadership team provides scrutiny and challenge on financial matters through review and comment on monthly and quarterly budget and outturn positions. Decisive 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>The Authority achieved a £0.589 million underspend in 2017/18 which is in line with performance in previous years. A balanced budget has been set for 2018/19 and although there are some gaps over the medium term financial plan, the Authority has a good track record of achieving savings as noted above and has sufficient reserves in place to manage any shortfall over the medium term. 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 Authority operates two trading organisations; Vital Fire Solutions Limited and County Durham and Darlington Fire and Rescue Community Interest Company, to enable it to trade with the private sector. Both organisations are now trading profitably and are forecast to make a financial contribution to the Authority's MTFP by 2019/20.</p> <p>Operational and corporate performance is monitored and managed internally via the monthly Performance & 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> <p>A comprehensive suite of performance indicators are employed to measure both operational and corporate performance. Targets are set on an annual basis against SMART criteria and take account of longer term trends.</p>	Yes

3. VALUE FOR MONEY CONCLUSION CONTINUED

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<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 as well as the private and voluntary sectors. The Authority has a strong track record of collaboration with partners and secured Government funding to progress a number of high profile collaborative projects including:</p> <ul style="list-style-type: none"> the first quad station in the country at Barnard Castle which opened on 1 April 2017-providing a joint facility for the Fire, Police, Ambulance and Mountain Rescue services; a joint training facility with the Police for incident command training; and community Safety Tri-Responders at Stanhope where staff work for the Fire, Police and Ambulance services according to demand. This is only the second project of its kind in the country. <p>A number of fire stations are shared with either the Police and/or the Ambulance Service. The Authority has recently invested in and introduced a joint drone unit with Durham Constabulary which is more efficient than helicopter coverage. There are also positive ongoing negotiations at a senior level with North East Ambulance Service to extend EMR response.</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 equipment has been undertaken as part of a regional collaboration for over 5 years.</p> <p>The Authority is part of the County Durham and Darlington LRF which is a multi-agency partnership formed to meet the requirements of the Civil Contingencies Act2004.</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> <p>The Authority has launched the Safer Homes project, working closely with Durham Constabulary and Durham County Council. This project involves working with social housing providers to fit properties with domestic sprinklers and home security equipment.</p>	Yes

Significant risks

The NAO’s guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our 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 identified no significant audit risks. We kept this under review throughout our audit and were satisfied that there were no significant audit risks apparent in respect of VFM for 2017/18.



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
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 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.

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 was 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 the Audit and Risk Committee in February 2018.

Having completed our work for the 2017/18 financial year, we can confirm that our final fees are as follows:

Area of work	2017/18 proposed fee	2017/18 final fee
Delivery of audit work under the NAO Code of Audit Practice	£28,877	£28,877

Fees for other work

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

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6. FORWARD LOOK

Financial outlook

The Authority achieved a £0.589 million underspend in 2017/18 which is in line with performance in previous years. A balanced budget has been set for 2018/19 and although there are some gaps during the period covered by the medium term financial plan, 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 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 reserves in place to help mitigate the risk of shortfalls over the medium term if required.

Operational challenges

The Authority will be subject to the HMICFRS Fire and Rescue Services Inspection Programme and Framework for England from 2018/19.

The Authority successfully delivered the 2017/18 Statement of Accounts to the new earlier deadline. New challenges in 2018/19 include the adoption in the Code of new accounting standards IFRS 9 and IFRS 15. The Authority will need to consider the impact these new standards will have on its financial reporting.

How we will work with the Authority

Our 2018/19 audit will focus on the risks that these challenges present to the Authority's financial statements and ability to maintain proper arrangements for securing value for money.

We will continue to offer accounting workshops to finance officers and the audit team will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

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