

# Annual Audit Letter

County Durham and Darlington Fire and Rescue Authority



County Durham and Darlington  
**Fire and Rescue Authority**

For the year ended 31 March 2017



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# Executive summary

## Purpose of this report

Our Annual Audit Letter summarises the work we have undertaken as the auditor for County Durham and Darlington Fire and Rescue Authority (the Authority) for the year ended 31 March 2017. 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 individual 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 work	Summary
Financial statements opinion	On 28 September 2017 we issued our opinion that the financial statements gave a true and fair view of the Authority's financial position as at 31 March 2017 and of its financial performance for the year then ended.
Opinions on other matters	On 28 September 2017 we issued our opinion that the Narrative Report published with the financial statements, was consistent with the financial statements.
Value for Money conclusion	On 28 September 2017 we issued our conclusion that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
Whole of Government Accounts	On 28 September 2017, we completed our work on your whole of government accounts in line with the instructions issued by the National Audit Office (NAO). There were no matters arising.
Matters that we report by exception	We did not identify any matters to report in relation to: <ul style="list-style-type: none"><li>• whether the Annual Governance Statement was in line with our understanding of the Authority and the requirements of the Delivering Good Governance in Local Government Framework 2016;</li><li>• reports in the public interest or written recommendations made under s24 of the 2014 Act;</li><li>• exercise of other audit powers under the 2014 Act.</li></ul>

As we have discharged all of our responsibilities under the 2014 Act for the 2016/17 audit, we certified completion of the audit on 28 September 2017.

# Audit of the financial statements

Financial statements opinion

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 2017 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 for the UK and Ireland (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 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 as 'those charged with governance'. We call this our trivial threshold.

The table below provides some details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2017:

Financial statement materiality	£0.693 million
Specific materiality	We applied a lower level of materiality to the following items of account: <ul style="list-style-type: none"><li>• Senior officer remuneration</li><li>• Members allowances</li><li>• Exit packages</li></ul>
Trivial threshold	£21,000

## 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 (as those charged with governance) 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.

Significant risk	How we addressed the risk	Audit conclusion
<p><b>Management override of control</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 overrides 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>Our testing strategy included the following:</p> <ul style="list-style-type: none"> <li>• Reviewing areas of the financial statements where management has used judgement and estimation techniques and consider whether there is evidence of unfair bias.</li> <li>• Examining any changes in accounting policies.</li> <li>• Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We will select adjustment journals using risk characteristics.</li> <li>• Reviewing significant transactions outside the normal course of business or that otherwise appear to be highly unusual.</li> </ul>	<p>Our work us with the assurance we sought and did not highlight any material issues to bring to your attention.</p>
<p><b>Pension transactions and balances</b></p> <p>The financial statements contain material entries in a number of primary statements as well as material disclosure notes in relation to the Authority's participation in the Local Government Pension Scheme and Firefighters' Pension Schemes. These entries arise from complex estimates used by the Authority's actuaries as well as information provided to the actuaries from the Authority (as employer and administering body for the Firefighters' Pension Schemes) and the administering body for the Local Government Pension Scheme</p>	<p>We addressed this risk by considering the Authority's arrangements (including the existence of any relevant controls) for making estimates in relation to pension entries within the financial statements.</p> <p>We also considered the reasonableness of the actuaries' assumptions used in providing the Authority with relevant entries in the financial statements through use of our expert commissioned by the NAO.</p>	<p>Our work provided us with the assurance we sought and did not highlight any material issues to bring to your attention.</p>

## Internal control

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 have not identified any significant weaknesses in internal control and there were no issues raised in previous years to follow up.

# Value for Money conclusion

Value for Money conclusion

Unqualified

## Summary of our work

We are required to form a conclusion as to whether the Authority 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.

The following table provides commentary of our findings in respect of each of the sub-criteria and an indication as to whether proper arrangements are in place.

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”.</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 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 publishes a Statement of Assurance on an annual basis which sets out the approach taken to ensuring that appropriate arrangements are in place in terms of governance and operational delivery. 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</p>	Yes

	<p>Service Leadership Team and Audit and Risk Committee review the governance issues contained within the Annual Governance Statement on a quarterly basis.</p> <p>Budget monitoring and reporting arrangements in place. 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 Integrated Risk Management Plan.</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>Performance reporting is embedded within the Authority's culture and Members are regularly updated on KPIs 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>	
Sustainable resource deployment	<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. The Authority has a good track-record of meeting the challenges faced as a result of the difficult funding environment at the current time.</p> <p>Financial planning is linked with all other elements of corporate and service planning through the Medium Term Financial Plan which is reviewed and updated annually as part of the detailed budget process. This sets out the expected resources available up to 2020/21 and the level of savings required.</p> <p>The Integrated Risk Management Plan sets out how the Authority plans to deliver services to the local population. The three year strategic plan sets out the key risks and challenges along with the vision for the future of the Service.</p>	Yes
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.</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.</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.</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 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. We have not identified any significant Value for Money audit risks.

**Our overall Value for Money conclusion**

Following completion of our work, we issued an unqualified Value for Money conclusion for the 2016/17 financial year.



# Other reporting responsibilities

<b>Exercise of statutory reporting powers</b>	<b>No matters to report</b>
<b>Annual Governance Statement</b>	<b>No matters to report</b>
<b>Other information published alongside the financial statements</b>	<b>Consistent</b>

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 reporting powers where matters come to our attention that require reporting to parties other than the Authority. We have the power to:

- report in the public interest; and
- make statutory recommendations to the Authority, which must be responded to publicly.

In addition we must respond to any objections or questions on items contained within the accounts raised by a local government elector. We did not receive any such objections or questions.

We are also required to report if, in our opinion, the Annual Governance Statement does not comply with the guidance issued by CIPFA in 'Delivering Good Governance in Local Government; Framework 2016' or is inconsistent with our knowledge and understanding of the Authority. We did not exercise any of our reporting powers during our 2016/17 audit and had no matters to report to the Authority in relation to the Annual Governance Statement.

## **Reporting to the NAO in respect of Whole of Government Accounts**

In line with instructions issued by the National Audit Office (NAO), we reported that your activity was below the threshold set by the NAO, meaning we were not required to review the WGA return.

## **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 information in the Narrative Report is consistent with the audited financial statements.

# Our fees

## Fees for work as the Authority's appointed 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 2017.

Having completed our work for the 2016/17 financial year, we can confirm that our final fees are as follows:

Area of work	2016/17 proposed fee	2016/17 final fee
Code audit work	£28,877	£28,877

We confirm that these fees are in line with the scale fee set by Public Sector Audit Appointments Ltd.

We have not undertaken any non-audit services for the Authority in 2016/17. However, we intend to undertake the audits and corporation tax returns in 2016/17 for both the CIC and Vital Fire Solutions Limited as shown in the table below.

Area of work	2016/17 proposed fee	2015/16 final fee
Community Interest Company Limited (CIC) audit	£2,750	£2,750
Vital Fire Solutions Limited audit	£2,750	£2,750
Community Interest Company Limited (CIC) corporation tax	£750	£750
Vital Fire Solutions Limited corporation tax	£750	£750

# Future challenges

## **Financial outlook**

The Authority has made good progress in addressing its challenges to date and has a good record of delivering planned budget reductions and savings, achieving a £0.719m surplus in 2016-17 (excluding capital financing and transfers from reserves). During this continued period of austerity, the main priority of the Authority continues to be the protection of front line services to the public. Over the medium term, this needs to be balanced with the need for the Authority to reduce expenditure. The Authority has set a balanced budget for 2017/18 and needs to identify a further £0.4m of savings over period covered by the medium term financial plan up to 2019/20. Work is continuing to develop further savings options to bridge the funding shortfalls including a full review of operational cover to fully understand demand in order to ensure an appropriate level of response. Work is also ongoing to identify additional savings through service transformation including identifying further opportunities for collaboration with other emergency services. The Authority has general reserves of £2.8m and earmarked reserves of £3.9m and is well placed to deal with the challenges ahead.

Some of the more significant financial pressures the Authority faces in the coming years include:

- the pressure on firefighter's pay following the government's removal of the 1% pay cap;
- the potential impact of changes to the Firefighter's Pension Scheme;
- funding for the backlog maintenance of the Authority's estate;
- ongoing funding of the capital programme.

## **Other challenges**

The Authority also faces a number of other challenges in the coming year including:

- responding to the HMIC Inspection programme; and
- review of information management systems.

## **How we will work with the Authority**

We are grateful to the Authority, its Members and officers for the co-operation and open dialogue during the year and look forward to continuing to work closely with them in delivering our Code of Audit Practice responsibilities.

# Contact details

Should you require any further information, please do not hesitate to contact us.

[www.mazars.co.uk](http://www.mazars.co.uk)

Mark Kirkham

Partner

0191 383 6350 or 0113 387 8850 or 07747 764 529

[mark.kirkham@mazars.co.uk](mailto:mark.kirkham@mazars.co.uk)

Campbell Dearden

Manager

0191 383 6304 or 0788 128 3348

[campbell.dearden@mazars.co.uk](mailto:campbell.dearden@mazars.co.uk)

## **Address:**

Salvus House

Aykley Heads,

Durham,

DH1 5TS

0191 383 3000