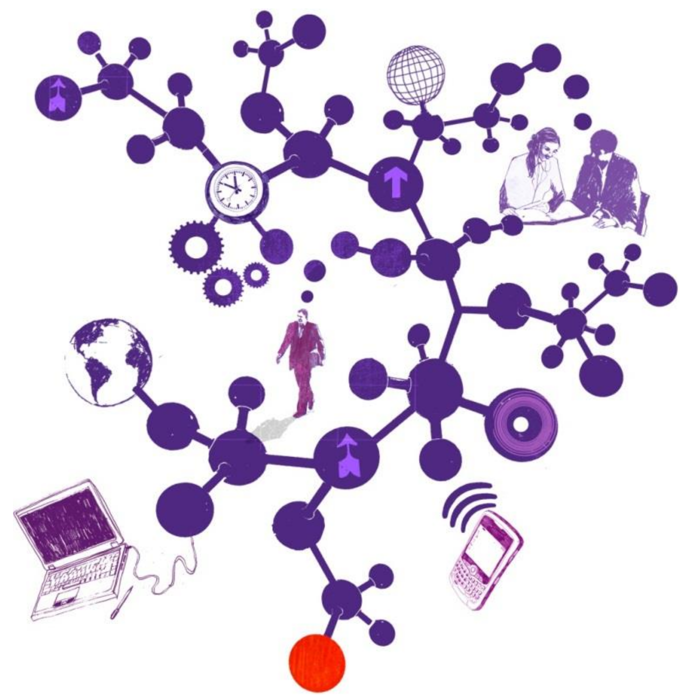
Informing the audit risk assessment for Staffordshire Commissioner Fire And Rescue Authority

Year ended

31 March 2019



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Purpose

The purpose of this report is to contribute towards the effective two-way communication between external auditors and the Police, Fire and Crime Commissioner (PFCC), as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the PCC under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the PFCC. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the PFCC and also specify matters that should be communicated.

This two-way communication assists both the auditor and the PFCC in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the PFCC and supports the PFCC in fulfilling his responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the PCC 's oversight of the following areas:

- fraud
- laws and regulations
- going concern
- accounting estimates
- related parties

This report includes a series of questions on each of these areas and the response we have received from the Authority's management. The PCC should consider whether these responses are consistent with his understanding and whether there are any further comments he wishes to make.

Fraud

Issue
Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the PFCC and management. Management, with the oversight of the PFCC, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of his oversight, the PFCC should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the PFCC regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the PFCC oversees the above processes. We are also required to make inquiries of both management and the PCC as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Authority's management.

Fraud risk assessment

Question	Management response
Has the Authority assessed the risk of material misstatement in the financial statements due to fraud or error? What are the results of this process?	There is a low risk of material fraud being committed against the Authority. The majority of income is grant funding which is not susceptible to fraud since it can be agreed to precepts and grant notifications. Remaining income is relatively small in value and unlikely to be susceptible to manipulation leading to material error. The majority of revenue expenditure is on payroll and capital expenditure mainly limited to refurbishing fire stations and purchasing fleet vehicles. In addition, arrangements are in place to both prevent and detect fraud, including work carried out by Internal Audit.
How is the Authority satisfied that the overall control environment is robust. In particular, what processes does the Authority have in place to identify and respond to risks of fraud?	Internal Audit include fraud risks in their planning process and alongside management review and separation of duties, act as an effective internal control against fraud.
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	Evidence published by the National Fraud Authority amongst others, suggests that fraud is committed in all organisations to varying degrees, so it is likely that some fraud is occurring in the Authority. Opportunities in this type of Authority however are limited. The Internal Audit plan incorporates consideration of potential fraud. In addition to this management is expected to identify and record fraud risks where necessary on the corporate risk register. The majority of assets are Fire appliances and stations, these are not at risk of misappropriation. There is the potential that fuel stocks at stations could be stolen but this is not material and therefore does not create an opinion risk. In addition the controls over fuel stocks are strong: pumps may only be activated by a key which is fitted to pump nozzles and therefore restricts access to only authorised vehicles. Fuel is also subject to periodic review by Internal Audit and monthly stock take.

Fraud risk assessment (Continued)

Question	Management response
How does the PFCC exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What arrangements are in place to report fraud issues and risks to the PFCC?	The Ethics, Transparency and Audit Panel (ETAP) receive an annual fraud presentation from the Head of Internal Audit, supplemented by a Fraud Watch publication to enable any emerging risk of fraud to be identified. Any breaches would be reported. The management update the Finance Panel with the audit recommendations progress and the Internal Audit provide the ETAP with updates of their work on fraud prevention and detection. There have been no identified frauds.
How does the Authority communicate and encourage ethical behaviour of its staff and contractors?	There is a Counter-Fraud and Corruption Policy and a Whistleblowing policy in place which explain the procedures to follow. There is a Fraud Watch Publication periodically. In addition the Authority has a Cultural Framework embedded within the organisation which identifies the behaviour expected by the officers.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	There is a Counter-Fraud and Corruption Policy and a Whistleblowing policy in place which explain the procedures to follow. No significant issues have been reported during the year. A monthly finance publication is produced and circulated amongst the staff which covers different topics each month. Also updates and reminders are included on the iNews, which is a weekly staff newsletter.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	The 2017/18 financial statement disclosure of related party transactions did not identify potential fraud risk. The PFCC and officers are required to make full disclosure of any relationships that impact on their roles. Members of each relevant committee are required to declare any relevant interests at Committee meetings.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Authority as a whole or within specific departments since 1 April 2018?	There are no instances of fraud that have been identified during the year.
Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2018? If so how does the Police and Crime Commissioner respond to these?	There have been no whistle-blower reports or reports under the Bribery Act during the year.

Fraud risk assessment (Continued)

Question	Management response
Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?	Internal controls are established and effective, both system based and manual. This includes the segregation of duties on all significant financial systems.
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	None

Laws and regulations

Issue
Matters in relation to laws and regulations ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements. Management, with the oversight of the PCC, is responsible for ensuring that the Authority's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements. As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the PCC as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements. Risk assessment questions have been set out below together with responses from management.

Impact of Laws and regulations

Question	Management response
What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?	The finance department consists of 3 qualified accountants (CIMA, FCCA & CPFA and ACCA). The department regularly keeps up to date with briefings, publications and bulletins. Financial Officers also attend and participate in various network groups such as Fire Finance Network, Staffordshire Accounting Group, Staffordshire Chief Finance Officers Group. The Authority has a S151 Officer and a Deputy S151 Officer in-house and up to the governance change on 1st August 2018 a Secretary who acted as the Monitoring Officer. Since the 1st August 2018 the monitoring officer is provided by the PFCC.
How does management gain assurance that all relevant laws and regulations have been complied with?	Following the change in governance during 2018 the Monitoring Officer for the Staffordshire Commissioner Fire and Rescue Authority is provided by the Chief Executive of the Staffordshire Commissioners Office, with additional support provided to the Chief Fire Officer by the Monitoring Officer from Derbyshire Fire and Rescue. Under the new governance arrangements a new Corporate Governance Framework has been approved which includes updated Financial Regulations for the Staffordshire Commissioner Fire and Rescue Authority. All papers considered under the new framework review any legal implications arising from the decisions making process, and in addition decision notices that are approved by the Staffordshire Commissioner are signed by the Monitoring Officer and S151 Officer where this is applicable. The Staffordshire Commissioner also employ's a Head of Governance & Assurance within the Commissioners Office.

Impact of Laws and regulations (Continued)

Question	Management response
How is the PFCC provided with assurance that all relevant laws and regulations have been complied with?	The S151 officer is responsible for preparing the accounting statements in accordance with relevant legal and regulatory requirements. The Monitoring Officer (or representative) attends the Finance Panel, ETAP and Strategic Governance Board (SGB) and advises members on any areas of concern.
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2018, or earlier with an on-going impact on the 2018/19 financial statements?	None.
What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?	The Authority has a Strategic Risk Co-ordinator in-house full time who is qualified under AMBCI (Associate Member of the Business Continuity Institute). The Officer monitors and manages the litigation or claims.
Is there any actual or potential litigation or claims that would affect the 2018/19 financial statements?	None.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None.

Going Concern

Issue
Matters in relation to going concern ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements. The going concern assumption is a fundamental principle in the preparation of the Authority's financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business. If the entity could not continue as a going concern, assets and liabilities would need to be recorded in the accounts on a different basis, reflecting their value on the winding up of the entity. Consequently, assets would be likely to be recorded at a much lower break-up value and medium- and long-term liabilities would become short-term liabilities. The Authority is not subject to the same future trading uncertainties as private sector entities. However, consideration of the key features of the going concern provides an indication of the Authority's financial resilience. It may indicate that some classes of assets or liabilities should not be valued on an on-going basis. We discuss the going concern assumption with key Authority officers and review the Authority's financial and operating performance. Going concern considerations have been set out below and management has provided its response.

Going Concern Considerations

Question	Management response
Does the Authority have procedures in place to assess the Authority's ability to continue as a going concern?	The Medium Term Financial Strategy (MTFS) is approved by the PFCC annually. The MTFS incorporates a 5 year strategic view. The ETAP, SGB and the Police, Fire and Crime Panel review the underlying assumptions around future council tax strategy and efficiency saving requirements.
Is management aware of the existence of events or conditions that may cast doubt on the Authority's ability to continue as a going concern?	Yes. The MTFS is prepared with a 5 year strategic view and within the window of this period the Authority is a going concern.
Are arrangements in place to report the going concern assessment to the PCC?	The MTFS is approved by the PFCC annually. The ETAP, SGB and the Police, Fire and Crime Panel review the underlying assumptions around future council tax strategy and efficiency saving requirements.
Are the financial assumptions in that report (e.g. future levels of income and expenditure) consistent with the Authority's Business Plan and the financial information provided to the Authority throughout the year?	Yes the assumptions are consistent. The Authority has a good track record of delivering savings and effectively managing reserves. An Efficiency Plan has also been produced which has been approved by the Home Office and the Authority. Delivery of the savings required within the Efficiency Plan is on track.

Going Concern Considerations (Continued)

Question	Management response
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	Yes the MTFS incorporates assumptions for known and assumed funding reductions during the next few years. Also assumptions around pay awards, pension costs (employer contributions) and the new Retained Payment Scheme.
Have there been any significant issues raised with the PCC during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal audit regarding financial performance or significant weaknesses in systems of financial control).	No issues have been raised during the year. There is a degree of funding certainty up to March 2020, with funding settlements broadly in line with expectations for the 4 year period 2016/17 to 2019/20. Beyond 2020 there is much less financial certainty with significant cost pressures from Pay and Pensions in addition to expected reduction is funding. The Commissioner is aware of the challenges post 2020.
Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?	The Authority publishes a monthly set of management accounts that incorporates a detailed commentary on financial performance against budget. Cash flow is carefully monitored by the Authority, as are any borrowing requirements. Mitigating action is taken quickly following the identification of areas of overspend that may occur during the year.
Does the Authority have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Authority's objectives? If not, what action is being taken to obtain those skills?	Yes the Authority has an established Principal Management Team. The Chief Fire Officer and Deputy Chief Fire Officer with three Directors (Response, Prevent and Protect and Finance Asset & Resources).

Accounting estimates

Issue
Matters in relation to accounting estimates Fire authorities need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate. Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate. Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all material estimates that the Authority is using as part of its accounts preparation; these are detailed in Appendix A to this report. The audit procedures we conduct on the accounting estimate will demonstrate that: • the estimate is reasonable; and • estimates have been calculated consistently with other accounting estimates within the financial statements. Accounting estimates considerations have been set out below and management has provided its response.

Question	Management response
Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
How is the PFCC provided with assurance that the arrangements for accounting estimates are adequate?	All estimate methodology complies with accounting regulations and good working practice. The Authority adheres to the CIPFA Code of Practice on Local Authority Accounting in the UK. The majority of the internal audit reports achieve a substantial assurance and others a satisfactory assurance which is presented to the Audit Committee on a regular basis. The Statement of Accounts has consistently received an unqualified opinion.

Related Parties

Issue
Matters in relation to Related Parties Fire authorities are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include: ■ entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (i.e. subsidiaries); ■ associates and/or joint ventures; ■ an entity that has an interest in the authority that gives it significant influence over the authority; ■ key management personnel, and close members of the family of key management personnel, and ■ post-employment benefit plans (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority. A disclosure is required if a transaction (or series of transactions) is material on either side i.e. if a transaction is immaterial from the Authority's perspective but material from a related party viewpoint then the Authority must disclose it. ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate. Related party considerations have been set out below and management has provided its response.

Related Parties Considerations

Question	Management response
What controls does the Authority have in place to identify, account for and disclose related party transactions and relationships?	A number of arrangements are in place for identifying the nature of a related party and reported value including: ■ At the end of the financial year Officers, members up to 31st July 2018 (pre the governance change) and the PFCC are asked to confirm whether or not they have been involved in or have knowledge of a related party transaction which is defined as “the transfer of assets or liabilities or the performance of services by, to, or for a related party irrespective of whether a charge is made”. If a member has, they are asked to supply details so these can be identified in the statement of accounts. ■ Maintenance of a register of interests for Members up to 31st July 2018 ■ Maintenance of a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions. ■ Review of in-year income and expenditure transactions with known identified related parties from prior year or known history. ■ Review of the accounts payable and receivable systems and identification of amounts paid to/from assisted or voluntary organisation ■ Review of year end debtor and creditor positions in relation to the related parties identified. ■ Review of minutes of decision making meetings to identify any member declarations and therefore related parties.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations	Property, Plant & equipment measured at the purchase price plus any attributable costs. Property is revalued sufficiently regularly, minimum of 5 years, and a Desk Top Exercise is performed periodically.	Consistent application	Yes in Land and Building valuations		No
Estimated remaining useful lives of PPE	PPE assessed on a framework of asset lives, ie Information Technology between 3-5, operational equipment between 5-10, fire appliances between 11 – 15.	Consistent application	No	A review of the NBV held at the point of disposal to assess if the asset life framework is appropriate	No
Depreciation & Amortisation	A charge for depreciation is made for all assets with the exception of land. This charge is calculated using the straight line method.	Consistent application of depreciation method across all assets.	No	. The length of the life is determined at the point of acquisition or revaluation according to: • Assets acquired in the financial year are not depreciated until the following financial year. • Assets that are not fully constructed are not depreciated until they are brought into use.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	For Building & Land	Valuations are made in-line with the Code and RICS guidance - reliance on expert.	**No**
Bad Debt Provision	Debtors are reviewed on an individual basis and a provision created in relation to specific debts if required.	The adequacy of this provision is reviewed annually by the Finance Manager.	No	Debtors reviewed on an individual basis and the provision relates to specific debts.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The amount of borrowings presented in the Balance Sheet is the outstanding principal repayable, and interest charged to the CIES is the amount payable for the year in the loan agreement.	Comply with guidance.	No	Comply with guidance	No
Accruals	The Accounts are prepared on an accruals basis and provision for sums due to or owed by the Authority is included in the accounts where the cash has not actually been received or paid during the year. Income has only been included in the accounts when it can be realised with reasonable certainty. There are certain non-material payments where the accruals concept is not followed. In these cases the authority adopts a receipts and payments basis, reflecting the transactions in the accounts in the year they become due rather than apportioning them over the years to which they may relate.	Review by the Finance Manager	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest available information has been used.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions would made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.	Charged in the year that the Authority becomes aware of the obligation.	No	Estimated settlements are reviewed at the end of each financial year.	No