Staffordshire Commissioner Fire and Rescue Authority Audit Plan

Year ending 31 March 2022

Staffordshire Commissioner Fire and Rescue Authority

25 May 2022

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key matters

Factors

Authority developments

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. We have continued to hold regular meetings with the senior finance team at the Authority, and the PFCC, to discuss and understand the key issues impacting on the Authority, including the firefighters pensions scheme and firefighter pay, settlement funding announcements and operational changes.

The Authority's budget for 21/22 was set with a revenue budget of £41.9m and an approved in-year capital expenditure programme of £6.0m, which has been reduced to £2.2m for the year as a result of some planned spending being deferred to 2022/23.

At Month 11, the Authority was forecasting an overall underspend on revenue of £0.4m, with small underspends expected across all areas of expenditure. At Month 11, capital spending was reported as £1.7m, an underspend of £0.6m against the revised capital programme.

Based on the November 2021 Public Performance Report, operational performance remained strong during the first half of 2021-22. The Authority published its Environmental & Sustainability Strategy 2022 – 2027 in January 2022, which identified four areas of focus for the next five years.

During 2021-22 there has been a change of PFCC (from May 2021) , and also a new Chief Fire Officer (from October 2021).

Recovery from Covid 19 pandemic

There are ongoing economic uncertainties brought about by the Covid 19 pandemic, as the public sector continues to operate within the constraints of a one year funding settlement. Precept flexibility remains the key source of growth in funding to the sector, which has been utilised by Fire Authorities nationally. The government has provided a range of financial support packages throughout the pandemic. This has included additional funding to support the deficit on the collection fund, the cost of services or offset other income losses.

The Authority has done well to manage the challenges arising by the pandemic (such as the impact on the workforce and crewing arrangements), and is well placed to respond to post-Covid challenges. However, Covid 19 continues to have some impact on the Authority. The most significant impacts of Covid-19 for the Authority have been seen in the workforce, with increased absence rates due to Covid impacting on crewing. The Authority's staff have continued to support the wider government response to the pandemic. The pandemic has been a factor in the delays in delivery of the Authority's capital programme, a significant element of which has now slipped into 2022/23.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out on page 18 , has been agreed with the Director of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will consider progress against previously agreed recommendations.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control – refer to page 5.
- We have identified significant risks in regards to the valuation of land and buildings and valuation of the net pension liability – refer to pages 6 & 7.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Staffordshire Commissions Fire and Rescue Authority ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Authority. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Police, Fire and Crime Commissioner ('PFCC')); and we consider whether there are sufficient arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the PFCC of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

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

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Presumed risk of management override of controls
- Valuation of land and buildings
- Valuation of net pension fund liabilities

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1m (PY £1m) for the Authority, which equates to around 2% of your prior year gross service expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £50k (PY £50k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following risk of significant weakness:

- Financial sustainability - How the body plans and manages its resources to ensure it can continue to deliver its services.

This risk of significant weakness has been identified based on the difficulties the Authority has faced in delivering its capital programme over the past three years.

Audit logistics

Our planning work visit took place during March and April 2022, and our final audit work will begin in June. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit will be £43,572 (PY: £38,646) for the Authority, subject to the Authority delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Presumed risk of fraud in revenue recognition ISA (UK) 240	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to improper recognition.	Having considered the risk factors set out in ISA 240 and the nature of revenue streams at the Authority, we have determined that the risk of fraud arising from improper revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the Authority, mean that all forms of fraud are seen as unacceptable. Therefore, we have concluded that this is not an area of significant risk for the Authority. We will continue to review and test, on a sample basis, material revenue transactions, ensuring that it remains appropriate to rebut the presumed risk fraud in revenue recognition.
Risk of fraud related to expenditure recognition PAF Practice Note 10	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition.	Having considered the risk factors and the nature of expenditure streams at the Authority, we have determined that the risk of fraud arising from improper expenditure recognition can be rebutted, because: • there is little incentive to manipulate expenditure recognition • opportunities to manipulate expenditure recognition are very limited • the culture and ethical frameworks of local authorities, including the Authority, mean that all forms of fraud are seen as unacceptable. Therefore, we have concluded that this is not an area of significant risk for the Authority. We will continue to review and test, on a sample basis, material expenditure transactions, ensuring that it remains appropriate to rebut the risk fraud in expenditure recognition.

Significant risks identified cont.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	We will: • evaluate the design an effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgments applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions
Valuation of the pension fund net liability	The Authority's pension fund net liabilities represent a significant estimate in the financial statements. The pension fund net liabilities are considered a significant estimate due to the values involved (£515m in total in the Authority's balance sheet as at 31 March 2021, £497m for Firefighter Pension Schemes (FFPS) and £18m for the Local Government Pension Scheme (LGPS)) and the sensitivity of the estimate to changes in key assumptions. Management have engaged the services of actuaries to estimate the current value of net liabilities as at 31 March 2022. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liabilities are not materially misstated, and evaluate the design of the associated controls • evaluate the instructions issued by management to their management experts (the actuaries) for this estimate and the scope of the actuaries' work • assess the competence, capabilities, and objectivity of the actuaries who carried out the Authority's pension fund valuations •assess the accuracy and completeness of the information provided by the Authority to the actuaries to estimate the liabilities • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuaries • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consultancy actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtain assurances from the auditor of Staffordshire Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions date, and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements (LGPS only) • test the data provided to the actuary of the FFPS

Significant risks identified cont.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	The Authority revalues its land and buildings annually, to ensure that the carrying value is not materially different from the current value at the financial statements date. Management have engaged the services of a valuer to estimate the current values of these assets as at 31 March 2022, using a mix of desktop and on-site valuations. These valuations represent a significant estimate by management in the financial statements due to the size of the values involved (£121m in the Authority's balance sheet as at 31 March 2021, and judgement required to estimate values based on source data (such as floor areas and costing of in-year improvements) and subjective inputs (such as obsolescence factors and selection of build costs indices). We have therefore identified valuation of land and buildings as a significant risk.	We will: • evaluate management's processes and assumptions for calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation experts • discuss with the valuers the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenge the information and assumptions used by the valuers to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the Authority's asset register.

Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Administrator access to Integra	During our planning procedures, we identified that members of the finance team also act as administrators for the Integra financial system. This means that there is an increased opportunity for management override of controls.	In addition to our risk-based sample testing of journals, we will perform a focused review of journals initiated by system administrators to determine whether these journals, and underlying transactions, have been appropriately recorded.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do the Ethics, Transparency and Audit Panel ('ETAP') members and the PFCC:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Authority we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Depreciation
- Year end provisions and accruals
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates

The Authority's Information systems

In respect of the Authority's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Authority uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Authority (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainly is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we have made enquiries of management through our Informing the Audit Risk Assessment template. We have included the responses from management as an Appendix to this audit plan and would ask members of ETAP to consider whether the responses are consistent with their understanding.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
  - issuing a report in the public interest or written recommendations to the Authority under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

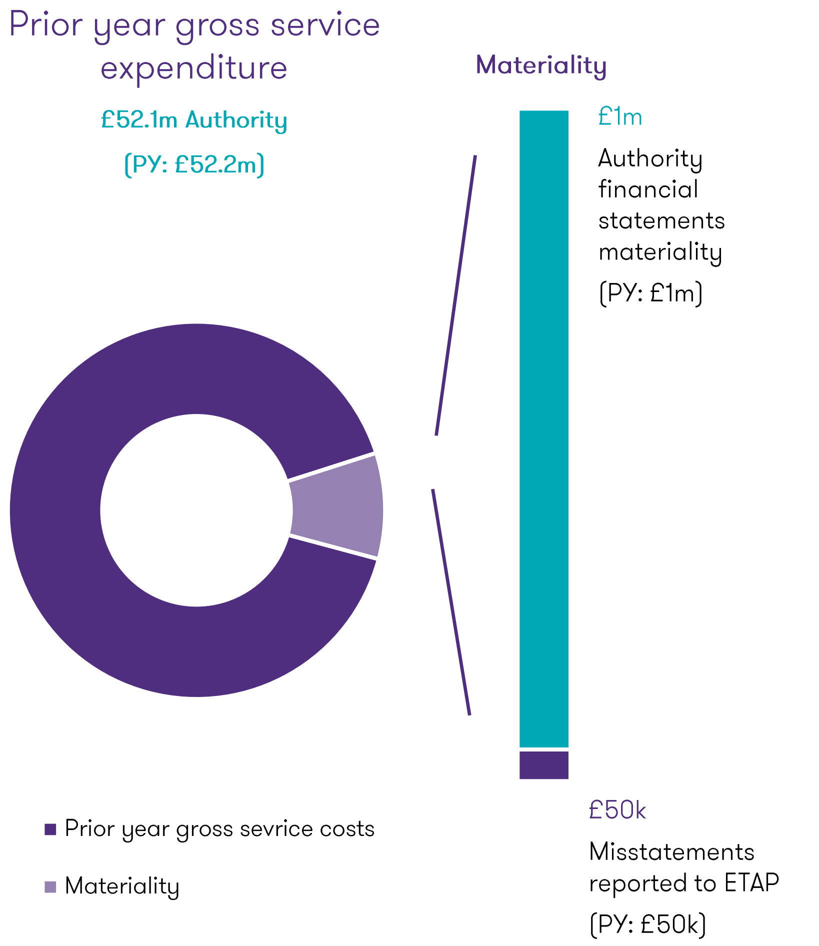
We have determined financial statement materiality based on a proportion of the gross service expenditure of the Authority for the 2020/21 financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1m (PY £1m) for the Authority, which equates to around 2% of your prior year gross service expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £14k for Senior Officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to ETAP

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to ETAP any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £50k (PY £50k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to ETAP to assist it in fulfilling its governance responsibilities.



IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

[We plan to rely on the operation of application controls whether automated / IT dependent and will therefore carry out an extended ITGC assessment on the IT systems that support the operation of those controls. This is to gain assurance that the relevant controls have been operating effectively throughout the period.]

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Capita Integra	Financial reporting	Streamlined ITGC assessment
Resource Link	Payroll	Streamlined ITGC assessment

Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office(NAO) issued updated guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources . When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table [below/overleaf].

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

Financial Sustainability

We have identified a risk of significant weakness in the Authority's arrangements to secure financial sustainability, based on ongoing delays in delivery of the capital programme.

In order to determine whether the delays do relate to a significant weakness in arrangements for securing economy, efficiency and effectiveness in use of resources, we will:

- meet with members of the Capital Review Group ('CRG') and review minutes of the CRG, to understand the role of the group and how the Authority intends to deliver its capital spending plans
- discuss how the Authority plans to deliver the capital programme with the s151 Officer
- conduct interviews to understand what impact the delays to the capital programme may have/had on service delivery

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team

Mark Stocks, Key Audit Partner

Mark will be the main point of contact for the Chair and members of ETAP, as well as the Chief Fire Officer, PFCC and the s151 Officer. He will share his wealth of knowledge and experience across the sector, providing challenge and sharing good practice. Mark will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit. Mark will sign your audit opinion.

Sarah Jassal, Audit Manager

Sarah will work with the senior finance team, ensuring audit work is delivered and any accounting issues are addressed on a timely basis. She will attend ETAP with Mark and supervise Lya in leading the on-site team. Sarah will undertake reviews of the team's work and draft clear, concise and understandable reports.

Lya Hall, Audit Incharge

Lya will be the day-to-day contact for the audit, organising any visits and liaising with Authority staff. She will lead the on-site team and manage our query log ensuring that any significant issues and adjustments are highlighted to management as soon as possible.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of items for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2017, PSAA awarded a contract of audit for the Authority to begin with effect from 2018/19. The fee agreed in the contract was £23,646. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on page 9 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2021/22 is set out below and has been agreed with the Director of Finance. There is a detailed analysis on page 19.

	Actual Fee 2019/20	**Actual Fee 2020/21**	**Proposed fee 2021/22**
Staffordshire Commissioner Fire and Rescue Authority	£48,397	£38,646	£43,572
Total audit fees (excluding VAT)	£48,397	£38,646	£43,572

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of financial statements , supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£23,646
Ongoing increases to scale fee first identified in 2019/20	
Raising the bar/regulatory factors	£1,250
Enhanced audit procedures for Property, Plant and Equipment	£2,188
Enhanced audit procedures for Pensions	£2,188
Additional work on Value for Money (VfM) under new NAO Code	£5,500
Increased audit requirements of revised ISAs (ISA240, 540 & 700)	£1,800
Additional journals testing	£2,000
Additional work in response to Integra GL administrator access (see page 8)	£2,500
Significant risk work on VfM – capital (see page 16)	£2,500
Total audit fees (excluding VAT)	**£43,572**

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority.

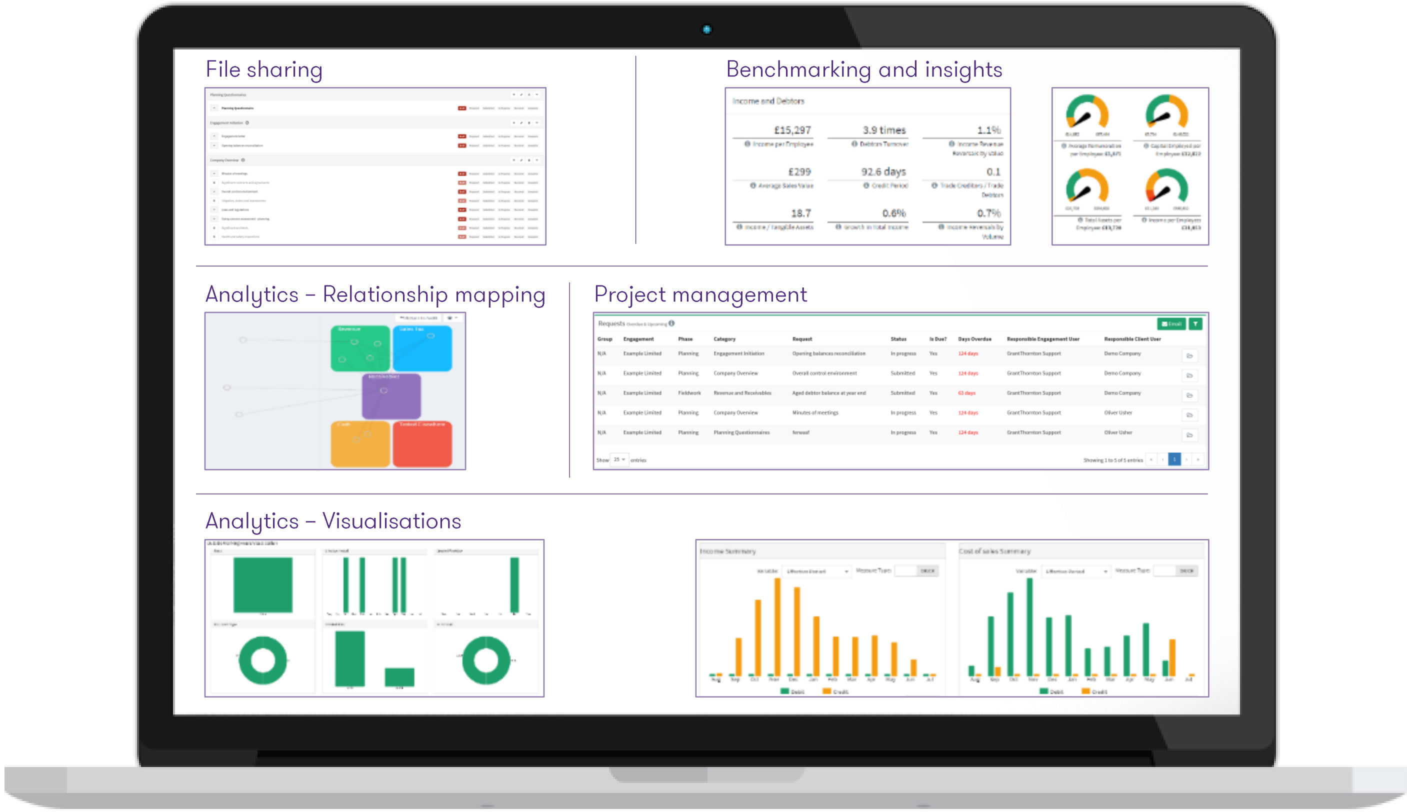
Other services

No other services provided by Grant Thornton were identified.

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data

File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work

Project management

- Facilitates oversight of requests
- Access to a live request list at all times

Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection	More time for you to perform the day job
Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders. Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance. Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.	Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us. Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced. We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments. We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined. Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Appendix A – Informing the Audit Risk Assessment

Purpose

The purpose of this report is to contribute towards the effective two-way communication between Authority's 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 PFCC under auditing standards.

Background

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

This two-way communication assists both the auditor and the PFCC (supported by the Ethics, Transparency and Audit Panel ('ETAP') 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 and ETAP in fulfilling its 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 Authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

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

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?	There are no new issues arising for the 2021/22 financial statements. The Pension Remedy is ongoing and the Authority have processed a number of category 1 cases under Immediate Detriment. In the event of a financial risk arising this will be covered through the use of Earmarked Reserves and will be below the materiality level.
2. Have you considered the appropriateness of the accounting policies adopted by the Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	The Management have considered the accounting policies. There are no changes to be made. There are no new policies made.
3. Is there any use of financial instruments, including derivatives? If so, please explain	None.
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	None.
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	None.
6. Are you aware of any guarantee contracts? If so, please provide further details	None.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	The Authority will be reporting a contingent liability note following the training incident that occurred at Harpur Hill. The Director of Finance will discuss and agree the required reporting with Grant Thornton.
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Service received legal advice from the Monitoring Officer / Solicitor from Derbyshire FRS. Additional external advice will also be accessed by our Shared HR function on a case by case basis.

General Enquiries of Management

Question	Management response
9. Have any of the Authority's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	None.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Weightmans have been used to provide pension advice on specific Firefighter Pension Scheme issues during the year. Bevan Brittan LLP have provided advice to support the Human Resources department as a result of specific employee grievances and claims. Dolmans Solicitors have been utilised to support the Harpur Hill Quarry incident.
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	None

Fraud

Matters in relation to fraud

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

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

As the Authority's external 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 and ETAP regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the PFCC and ETAP oversee the above processes. We are also required to make inquiries of both management and those charged with governance 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
1. Has the Authority assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the Authority's risk management processes link to financial reporting?	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 refurbishment of 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. The Strategic Risk Register incorporates a high level risk associated with future estimates of funding reductions e.g. the impact of the fair funding review.
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	The classes of accounts that are most at risk to fraud are accounts payable, payroll and procurement. This would include credit card usage and fuel stocks. All of these areas have robust and strict procedural processes which are reviewed by management and internal audit.
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Authority as a whole, or within specific departments since 1 April 2021? If so, please provide details	There are no instances of fraud that have been identified in the year.
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	The management update the Finance Panel with a the audit recommendations progress and the internal audit provide ETAP with updates of their work on fraud prevention and detection. The Director of Assets and Resources also reports to Senior Executive Boards.
5. Have you identified any specific fraud risks? If so, please provide details Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within the Authority where fraud is more likely to occur?	The majority of assets are fire appliances and stations; these are not at risk of misappropriation. There is a potential that fuel could be stolen but this is not material and therefore does not create an opinion risk. In additional the control over fuel stock is 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 monthly stock takes. The only cash handled is in the HQ canteen (but again this is minimal as the canteen have now introduced a card payment scheme) and Princes Trust Team (but this has controls of segregation of duties etc).

Fraud risk assessment

Question	Management response
6. What processes does the Authority have in place to identify and respond to risks of fraud?	Management review risk periodically, in addition effective internal controls are in place to reduce the exposure to risk and opportunity for risk.
7. How do you assess the overall control environment for the Authority, including: • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? 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)? If so, please provide details	The Service has robust internal controls both built into the financial system, processes that site outside of the financial system and the scrutiny in place with the governance arrangements. For example, the financial system is based on roles, which hold permissions to functions within the system; each user is given a selection of roles and are therefore restricted on access and functions. The Information Security Officer monitors the audit logs from the system to review key areas (i.e. supplier set up, bank changes, user password changes etc). We are also mindful of the need to segregate certain duties which we apply. In addition the payroll processing is provided by SOTCC and the pension administration is provided by WYPF. The Service complies with the Financial Regulations and Contract Standing Orders, in addition to other related policies and procedures, which are trained out to new members and are regularly reviewed to ensure they are up to date and relevant. The Service also adheres to The Transparency Code. The independent scrutiny is offered by a Governance Framework, e.g. SGB, Finance Panel, ETAP and PFCP.
8. Are there any areas where there is potential for misreporting? If so, please provide details	None

Fraud risk assessment

Question	Management response
9. How does the Authority communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details	The Authority has a Counter-Fraud and Corruption Policy and a Whistleblowing Policy in place which explains the procedures to follow. In addition the Authority has a cultural framework embedded within the organisation which identifies the behaviour expected by the officers. Updates and reminders are included on the weekly iNews and articles published in the quarterly staff magazine Burning Issues. No significant issues have been reported.
10. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	Those posts that are responsible for elements of credit control (supplier set up, create/amend supplier bank details, run creditor payment runs) and those who have the responsibility to set up new employees on the payroll system. Any individual who has the responsibility to approve credit card spend. To prevent fraudulent behaviour internal controls are established and effective, both system based and manual. This includes the segregation of duties on all significant financial systems and processes.
11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details How do you mitigate the risks associated with fraud related to related party relationships and transactions?	The PFCC and officers are required to make full disclosure of any relationships that impact on their roles. The disclosure statements for 2020/21 did not identify any potential risk. The 2021/22 will be issued shortly. There are no known risks.

Fraud risk assessment

Question	Management response
12. What arrangements are in place to report fraud issues and risks to the PFCC? How does the PFCC exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	Governance Framework in place, supported by Financial Regulations. ETAP and Finance Panel No issues of fraud have been reported.
13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	There are no instances of fraud that have been identified during the year.
14. Have any reports been made under the Bribery Act? If so, please provide details	There are no reports been made under the Bribery Act during the year.

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of those charged with governance, 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 those charged with governance as to whether the body is in compliance with laws and regulations. Where we become aware 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
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?	The Monitoring Officer for the Staffordshire Commissioner Fire and Rescue Authority is provided by the Chief Executive of the SCO with additional legal support provided by the FRA and the Chief Fire Officer by the Monitoring Officer from Derbyshire Fire and Rescue. The Corporate Governance Framework has been approved which includes Financial Regulations for the Staffordshire Commissioner Fire and Rescue Authority. All papers considered review any legal implications arising from the decision making process, and in addition decision notices that are approved by the Staffordshire Commissioner are signed by the Monitoring Officer and s151 Officer where applicable. The Staffordshire Commissioner also employs a Head of Governance and Assurance within the Commissioner's Office. The finance function is provided though a shared service arrangements with Staffordshire Police. There are dedicated members of staff providing the service back to Fire as part of a signed legal agreement. The dedicated team consists of 3 qualified accountants, two from the shared service in addition to the Director of Finance / S151 Officer (FCCA & CPFA, ACCA and CIMA). The department regularly keeps up to date with briefings, publications and bulletins. Financial Officers also attend and participate in various networking groups such as Fire Finance Network, Staffordshire Accounting Group, Staffordshire Chief Finance Officer Group. The Authority has a s151 Officer and a Deputy s151 Officer in-house. The monitoring officer is provided by the PFCC.
2. 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 attends the Finance Panel, ETAP and the Strategic Governance Board.

Impact of laws and regulations

Question	Management response
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details	None.
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	None other than Harpur Hill H&S legal case mentioned above.
5. 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. The Officer monitors and manages the litigation or claims.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	None.

Related Parties

Matters in relation to Related Parties

Staffordshire Commissioner Fire and Rescue Authority are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by the Authority;
- associates;
- joint ventures;
- a body 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 body 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) 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 Parties

Question	Management response
1. Have there been any changes in the related parties including those disclosed in Authority's 2020/21 financial statements? If so please summarise: • the nature of the relationship between these related parties and the Authority • whether the Authority has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions	None.
2. 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 related party and reported value including: • At the end of the financial year 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 for pecuniary interest 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 organisations • 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.

Related Parties

Question	Management response
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	Annually a declaration is received from all senior managers. Any significant transactions raised will be reviewed and appropriate action taken. In previous years the returns have raised no concerns. This year's are yet to be received.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	As above.

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for fire authorities presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by the Authority will no longer continue?	The Authority produce a 2 year cash flow, in addition to holding General and Earmarked Reserves. A going concern report is produced for the Authority.
2. Are management aware of any factors which may mean for the Authority that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	Management are not aware of any factors which may mean for the Authority that either statutory services will no longer be provided.
3. With regard to the statutory services currently provided by the Authority, does the Authority expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for the Authority to cease to exist?	Yes, the Authority expects to continue to deliver statutory services for the foreseeable future.
4. Are management satisfied that the financial reporting framework permits the Authority to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Management are satisfied that preparing financial statements on a going concern basis provides a faithful representation of the items in the financial statements.

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do ETAP members and the PFCC:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the PFCC and ETAP to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	The main classes of transactions in the financial statements that give rise for accounting estimates and disclosures are pensions, PPE and non-pay accruals.
2. How does the Authority's risk management process identify and address risks relating to accounting estimates?	Material Accounting estimates are reviewed by Management which includes the three qualified accountants to ensure that the estimates are considered to be accurate and should be recognised within the financial statements. This will include a review of the underlying assumptions and an assessment of certainty.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Dependent on the nature of the estimate the Service use specialists for PPE valuation and actuarial experts for pensions. All other estimates use a reliable basis for establishing a realistic calculation.
4. How do management review the outcomes of previous accounting estimates?	Comparison to actual results
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	None

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Management identify the key areas that require specialist knowledge not held by an officer within the Service, or are so significant that the calculation requires a level of independence.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Management will review any significant estimates received from Service Providers or Management Experts. Management will review assumptions and YOY movements to ensure that any material movement in estimates is fully understood and has been tested to ensure that this material movement is explained through the changes in factors used or future assumptions.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Management will review the assumptions used within significant estimates provided externally e.g. Property and Pension Valuations. Of course there needs to be some recognition, for example, with Pension estimates that the Actuary are experts in this field and assumption will be common across a number of public sector bodies.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements.	All accruals and estimates are either calculated or reviewed by the Management accountant in the first instance. Senior Management will review all significant estimates e.g. for Property and Pensions. The process for making estimates and the method used will be determined largely on a case by case basis as determined appropriate by the finance professional.
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A2)? If so, what are they?	Yes, management are briefed appropriately by the Deputy Chief Finance Officer, regarding significant accounting estimates and judgements. There are no significant estimates that site outside of those stated in Appendix A2.

Accounting Estimates - General Enquiries of Management

Question	Management response
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A2, are reasonable?	The accounting estimates are consistent with previous years and area either based on actuals or estimates are prepared by specialists. The calculations are in line with appropriate accounting standards.
12. How are those charged with governance 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 ETAP on a regular basis. The Statement of Accounts has consistently received an unqualified opinion.

Appendix A2 Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether manage ment 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?
Land and buildings valuations	Land and buildings are measured at the purchase price plus attributable costs. Property is revalued sufficiently regularly and a desk top exercise is performed annually. In 2021/22 the valuer will start the 3 year programme of performing site inspections (third of the properties each year).	Consistent application	Yes		No
Depreciation and UELs	A charge for depreciation is made for all assets, with the exception of land. This charge is calculated using the straight line method. Land and buildings are assessed on a framework of asset lives.	Consistent application	Yes		No
Valuation of defined benefit net pension fund liabilities	Actual calculation uses the spreadsheet models provided by GAD (FF Pensions) and Hymans (LGPS) based on the accounting standards.	Calculation based on actual data for both pension schemes. Consistent applications	Yes	Assumptions suggested by GAD and Hymans, reviewed by management and agreed.	No

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Appendix A2 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?
Level 2 investments	Actual values are used	Consistent approach	No	No uncertainty, actual values used	No
Level 3 investments	n/a				
Fair value estimates	Actual values used	Consistent approach	No	No uncertainty, actual values used	No
Provisions	Provisions are in accordance with accounting regulations.	The provisions are reviewed by the Management Accountant ACCA	No	Provisions are calculated based on the most recent information available.	No
Accruals	The accounts are prepared on an accrual basis and calculated in accordance with accounting regulations. Income is only included when it can be realised with reasonable certainty.	The accruals are reviewed by the Management Accountant ACCA	No	Accruals have been principally based on known values. Where estimates have been calculated then the most recent information has been used.	No

Appendix A2 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?
Credit loss and impairment allowances	Debtors are reviewed on an individual basis and a provision is created in relation to specific debts if required.	The level of this provision is reviewed annually by the Fire Transactional Manager and the Deputy CFO	No	Debtors are reviewed on an individual basis and the provision relates to specific debts	No
Finance lease liabilities	Based on the finance lease contract for purchase price and terms of contract	Consistent approach	Produced by the Deputy Chief Finance Officer		No
PFI liabilities	PFI Accounting Model is used	Consistent approach	Originally the PFI accounting model was produced by KPMG PFI specialist and has since been reviewed by a Grant Thornton PFI expert.		No

Appendix B – Significant improvements from the Financial Reporting Council's (FRC) quality inspection

Appendix B Significant improvements from the Financial Reporting Council's (FRC) quality inspection

On 29 October, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: FRC AQR Major Local Audits_October 2021

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018/19	Number 2019/20	Number 2020/21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
Total	4	6	9

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Appendix B Significant improvements from the Financial Reporting Council's (FRC) quality inspection (cont.)

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits an society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

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