

# The Annual Audit Letter for Stoke on Trent and Staffordshire Fire and Rescue Authority

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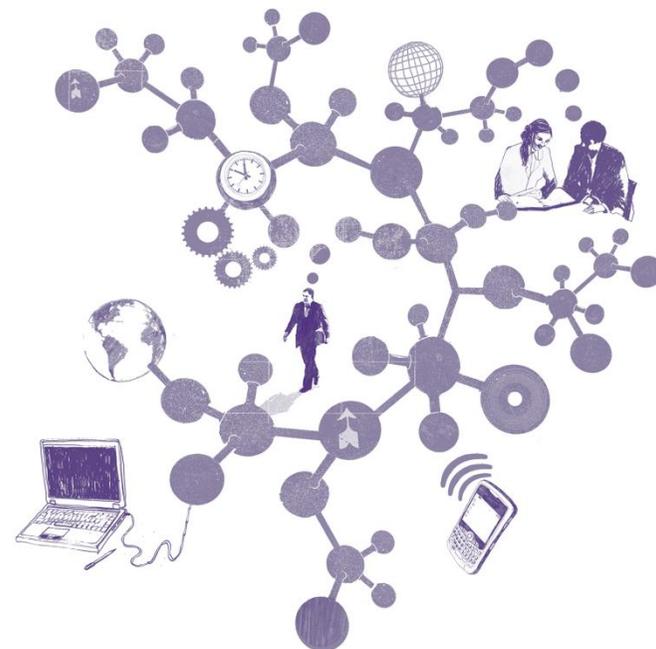
**Year ended 31 March 2016**

**October 2016**

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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Stoke on Trent and Staffordshire Fire and Rescue Authority (the Authority) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Authority and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Authority's Audit Committee as those charged with governance in our Audit Findings Report on 27 July 2016.

## **Our responsibilities**

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Authority's financial statements (section two)
- assess the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Authority's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Authority's financial statements on 27 July 2016.

### **Value for money conclusion**

We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 27 July 2016

### **Certificate**

We certified that we had completed the audit of the accounts of Stoke on Trent and Staffordshire Fire and Rescue Authority in accordance with the requirements of the Code on 27 July 2016.

**Grant Thornton UK LLP**  
**October 2016**

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# Looking Forward

## **Working with Stoke on Trent & Staffordshire Fire and Rescue Authority**

We reported in our Audit Findings Report that:

- The financial statements submitted for audit were, yet again, of good quality, delivered by an effective closedown process and supported by excellent working papers.
- Of particular note was the speed and efficiency queries were responded to by Authority staff across all departments.
- We did identify 2 adjustments affecting the Authority's reported financial position. The draft financial statements for the year ended 31 March 2016 recorded net expenditure of £59,270k; the audited financial statements showed a net expenditure of £68,534k.
- We did identify a relatively small number of disclosure errors, and requested some adjustments to improve the presentation of the financial statements.

Due to the excellent engagement between the finance and audit teams, the on-site work was delivered in a shorter timescale with an opinion being issued in July 2016. In previous years we have issued our opinion in September. This places the Authority in an excellent position to meet the reduced timescales for delivery of the audit which will impact in 2017/18.

The Authority's accounts show a good financial position going forward, due to:

- Appropriate levels of reserves, specifically usable reserves, with these reserves forming an integral part of the overall financial strategy of the Authority.
- Ability to provide Value for Money – shown via our unqualified Value for Money opinion.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Authority's staff.

## **The changing landscape**

The fire sector continues to face a period of unprecedented change. Stoke on Trent and Staffordshire Fire and Rescue Authority has demonstrated that it fully supports service wide transformation and has focussed its attention on prevention so has already achieved significant savings following reductions in central government funding of approximately £5.9 million over the Comprehensive Spending Review (CSR) period 2011/12 to 2015/16.

Funding reductions of this scale impact on both service support and service delivery functions and have required more challenging and innovative approaches to support the delivery of internal and external community facing services. Service transformation has been achieved at the same time as delivering against the Service's priorities and outcomes.

Looking forward over the next four years (2016/17 to 2019/20), the Authority is set to receive further reductions in core funding of approximately £4 million. The Service will continue to explore different approaches to achieve efficiencies to offset these funding reductions by focusing on growing and improving the services delivered to communities whilst seeking alternative funding streams to support the Service Delivery Model.

The Authority is also positioning itself well in light of recent legislative changes which provide scope for closer working between Police and Fire. Senior Leaders of the Authority are supporting and leading change which will enable the Authority to respond well to future developments.

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Authority's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Authority's accounts to be £1,030,000, which is 2% of the Authority's gross revenue expenditure. We used this benchmark, as in our view, users of the Authority's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a lower threshold of £51,750, above which we reported errors to the Audit Committee in our Audit Findings Report.

We also set a lower level of specific materiality for certain areas, including:

- Audit Fee Disclosure – all errors would be reported
- Officers' Remuneration – materiality £10,000
- Related Party Transactions – materiality based on review of each item

### **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

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

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Authority and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the accounts Stoke on Trent & Staffordshire Fire & Rescue Authority

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Stoke on Trent and Staffordshire Fire and Rescue Authority, we have determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition,</li> <li>• opportunities to manipulate revenue recognition are very limited,</li> <li>• the culture and ethical frameworks of local authorities, including Stoke on Trent and Staffordshire Fire and Rescue Authority, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p><b>Our audit work did not identify any issues in respect of revenue recognition within the financial statements.</b></p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work:</p> <ul style="list-style-type: none"> <li>• We reviewed the journal control environment and not identified any significant control weaknesses.</li> <li>• We tested key journal entries and not found any items which impacted on our opinion.</li> <li>• We reviewed the accounting estimates, judgements and decisions made by management</li> <li>• We reviewed any unusual, significant transactions and not identified anything which would impact on our opinion.</li> </ul> <p><b>Our audit work did not identify any evidence of management over-riding controls. In particular, the findings of our review of journal controls and testing of journal entries did not identify any significant issues.</b></p>
<p><b>Pensions commutation liability</b></p> <p>The Authority processed a material payment in the year in relation to pensions commutation liabilities that arose as a result of the GAD Vs.Milne case. Under ISA 315, this is a significant non-routine transaction.</p>	<p>As part of our audit work:</p> <ul style="list-style-type: none"> <li>• We reviewed prior year provisions in comparison with the actual payment made to pensioners.</li> <li>• We agreed payments made to pensioners or the estate of deceased former scheme members.</li> <li>• We agreed receipt of the top-up grant receivable from DCLG to meet the liability.</li> <li>• We reviewed disclosure requirements and found them to be appropriate.</li> </ul> <p><b>Our audit work did not identify any issues in respect of the pensions commutation liability.</b></p>

# Audit of the accounts – Continued

Risks identified in our audit plan	How we responded to the risk
<p><b>Actuarial valuation of pension fund net liability</b></p> <p>The Authority's pension fund net liability is an accounting estimate with a high degree of estimation uncertainty and is therefore considered to represent a significant risk in line with ISA 540</p>	<p>As part of our audit work we have</p> <ul style="list-style-type: none"><li>• Documented the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated.</li><li>• Reviewed the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation and undertook follow up work as recommended.</li><li>• Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li><li>• Undertaken a review of the data provided to the actuary to confirm accuracy</li></ul> <p><b>Our audit work did not identify any issues in respect of actuarial valuation of the pension fund liability.</b></p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Authority's accounts on 27 July 2016, in advance of the 30 September 2016 national deadline.

The Authority made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Authority to the Authority's Audit Committee on 27 July 2016.

## **Annual Governance Statement and Narrative Report**

We are also required to review the Authority's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Authority and with our knowledge of the Authority.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Authority's accounts and to raise objections received in relation to the accounts.

We were not required to invoke our additional powers and duties during the completion of this audit.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

## Overall VfM conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

# Value for Money

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
<p><b>Joint Control Centre</b></p> <p>As a result of the joint West Midlands FRAs Control Centre becoming fully operational, the Authority has seen an increase in the deployment of West Midlands appliances to attend Staffordshire incidents. This has resulted in a significant increase in cross border recharges. This arrangement may not be delivering value for money if Staffordshire's retained fire-fighters on the retained payment scheme are not being deployed, as a result of increased utilisation of West Midlands appliances.</p>	<p>We reviewed the project management and risk assurance frameworks established by the Authority to establish how it is identifying, managing and monitoring these risks.</p>	<p>A robust monitoring plan is in place to ensure appropriate scrutiny and challenge is made in relation to cross border charges to ensure they are reasonable and accurate. The Authority have also made some changes to the mobilisation rules to try and reduce this cost as they move forward which is having some positive impact. Review showed that there were no disputed/unresolved cross border recharges and there were no disputed invoices at the year end. Going forward there are discussions in place to seek to abolish these charges in the future.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements</b></p>

# Value for Money

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
<p><b>Partnership working with other emergency services.</b></p> <p>here is evidence that the Authority is working in partnership with the Police as the Fire workshops are now used to maintain police vehicles. There is some uncertainty over how effective the partnership working is and how collaboration will lead to integration. There is a risk that the relationship with Police has a detrimental effect on joint collaboration, and as a result the Authority are unable to take advantage of potential service delivery savings.</p>	<p>We reviewed the project management and risk assurance frameworks established by the Authority in respect of the more significant projects, to establish how the Authority is identifying, managing and monitoring these risks.</p>	<p>There is evidence that the Authority is working well in partnership with the Police as the Fire workshops are now used to maintain police vehicles.</p> <p>In January 2016 the Authority established a joint team that is now looking at collaboration and integration opportunities that exist between Fire and Police. The team are currently scoping out and prioritising opportunities and will report back through a joint governance board.</p> <p>The Authority has made good progress with setting up the joint maintenance facility at their Trentham Lakes workshop, which has recently become fully operational. There is now a joint project group to look at further opportunities for collaboration with the Police. We will continue to monitor the output from this group, and what this means in terms of effective integration and collaboration between the two services. This is particularly relevant given the Home Secretary's recent speech on Fire reform. On 24 May 2016 the Home Secretary announced the fire reform agenda which will be implemented over the next 4 years. One element relates to improving efficiency and collaboration, which will encourage greater collaboration, both across fire and rescue services and with police and ambulance services</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements</b></p>

# Value for Money

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
<p><b>Sustainable Resource Deployment</b></p> <p>The Authority has historically managed its finances well and has consistently achieved savings targets. It is on course to achieve a balanced budget for 2015/16. However delivering savings year on year becomes increasingly harder. Savings of £1.7m have been identified for 2015/16, however the Authority still requires further savings of around £4m in the four years 2016/17 to 2019/20.</p>	<p>We reviewed the project management and risk assurance frameworks established by the Authority in respect of the more significant projects, to establish how the Authority is identifying, managing and monitoring these risks.</p>	<p>The Authority has historically managed its finances well and has consistently achieved savings targets. It stayed on course to achieve a balanced budget throughout 2015/16. However delivering savings year on year becomes increasingly harder. Savings of £1.7m have been identified for 2015/16, however the Authority still requires further savings of around £4m in the four years 2016/17 to 2019/20.</p> <p>The Authority has an excellent record of delivering savings, and the approach to date has been very successful. The Fire Authority exceeded their savings requirement for 2015/16 and are well on track to deliver the 2016/17 requirement. The task however does get more difficult as time passes, and cumulative savings of £5.7m are needed by 2019/20. Whilst the approval of the Community Safety options in July 2015 has provided a significant saving of £1.1m further savings options must be agreed and approved during 2016 if the Service is to remain on track to deliver the required level of savings. It is essential that management continue to formalise arrangements to detail delivery and savings assessments and a mechanism for monitoring is included within project evaluation. This recommendation has been echoed by Internal Audit findings.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements</b></p>

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# Working with the Authority

## Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

**An efficient audit** – we delivered the accounts audit 2 months before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work. We will continue to work with you to identify further efficiencies in the process to ensure a continued, smooth audit delivery.

**Improved financial processes** – during the year we reviewed your financial systems and processes including employee remuneration, non-pay expenditure and property plant and equipment. We worked with you to ensure valuations were kept up to date and accounting policies for capitalisation and depreciation were accurately reflecting the Authority's processes.

**Understanding your operational health** – through the value for money conclusion we provided you with assurance on your operational effectiveness.

**Sharing our insight** – we provided regular audit committee updates covering best practice. Areas we covered included Making Devolution Work; Knowing the Ropes: Audit Committee Effectiveness Review; Re-forging Local Government and Innovation in public financial management.

**National research reports** – we have shared with you our publication on Joining up the dots, not picking up the pieces – Partnership working in Mental Health and Better Together – Building a successful joint venture company and will continue to support you as you consider greater use of alternative delivery models for your services.

We are looking forward to working with you next year and will continue to support you. Locally, our focus will be on:

- An efficient audit – continuing to deliver an efficient audit.
- Improved financial processes – we will challenge our approach to ensure that as much work is brought forward as possible to support faster close.
- Understanding your operational health – we will focus our value for money conclusion work on challenges from new models of working.
- Supporting development – we will discuss with you the provision of access to our CEO Room to provide space and support for your Chief Fire Officer as she works more strategically as part of the changing legislative expectations.
- Support outside of the audit – our advisory team are available to discuss with you how CFO Insights can be adapted to support the Fire and Rescue Service

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and **confirm there were no fees for the provision of non audit services.**

## Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Authority	30,709	30,709	40,945
<b>Total fees (excluding VAT)</b>	<b>30,709</b>	<b>30,709</b>	<b>40,945</b>

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	<b>0</b>
<b>Non-audit services</b>	<b>0</b>

## Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	July 2016
Annual Audit Letter	October 2016



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