



The Annual Audit Letter for Staffordshire Commissioner Fire and Rescue Authority

Year ended 31 March 2020

July 2021



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Staffordshire Commissioner Fire and Rescue Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2020 for the Police Fire and Crime Commissioner (PFCC) as those charged with governance, and the Ethics Transparency and Audit Panel (ETAP) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Authority and 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 and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Authority's ETAP and PFCC as those charged with governance in our Audit Findings Report on 9 November 2020.

Respective 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) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Authority's financial statements to be £980,000, which is 2% of the Authority's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Authority's financial statements on 9 November 2020.
Whole of Government Accounts (WGA)	We completed work on the Authority's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Authority on 9 November 2020.

Certificate We certified that we have completed the audit of the financial statements of Authority in accordance with the requirements of the Code of Audit Practice on 11 November 2020.

Working with the Authority We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 27 May 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach.

The draft financial statements were provided to the audit team on 1 June 2020. This was an excellent performance in the circumstances. Restrictions on non-essential travel has meant both Authority and audit teams have had to work remotely including, remote accessing financial systems, video calling, alternative procedures for the physical verification of assets and completeness and accuracy of information produced by the entity. Inevitably the remote working has impacted on delivery and additional time and resources have been necessary on both sides to complete the work in accordance with the new extended reporting timetable.

In particular, Covid 19 has increased the work undertaken in relation to Pensions Liabilities and Property Valuation due to the uncertainty of valuations. There has also been an increase in the time taken to perform the audit as a direct result of remote working. This has increased time spent on the audit by 25%. This has resulted in an increase in audit fees.

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

Mark Stocks, Partner, Grant Thornton
July 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Authority's financial statements, 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 the audit of the Authority's financial statements to be £980,000, which is 2% of the Authority's gross revenue expenditure. We used this benchmark as, in our view, users of the Authority's financial statements are most interested in where the Authority has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration and exit packages of £100,000.

We set a lower threshold of £49,000, above which we reported errors to the ETAP and PFCC in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient 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 accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the financial statements and the narrative report, annual governance statement and Annual Report published alongside the financial statements to check it is consistent with our understanding of the Authority and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that 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 Financial Statements

Significant Audit Risks

These are the significant 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	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals. analysed the journals listing and determined the criteria for selecting high risk unusual journals; tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions 	<p>Our audit work has not identified any significant issues in respect of management override of controls.</p>
<p>Valuation of land and buildings (both PPE and Investment Assets)</p> <p>The Authority revalue PPE land and buildings on a rolling five-yearly basis, and investment properties every year.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>This represents a significant estimate by management in the financial statements.</p> <p>We identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.</p>	<p>We:</p> <ul style="list-style-type: none"> Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work Evaluated the competence, capabilities and objectivity of the valuation expert Wrote to the valuer to confirm the basis on which the valuation was carried out to ensure the requirements of the Code were met Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding Tested the full valuation at 31 March 2020 to understand the information and assumptions used in arriving at any revised valuations Tested revaluations made during the year to see if they had been input correctly into the Authorities asset register 	<p>Our audit work did not identify any issues in respect of valuations of the Authority's property. Our audit report included an Emphasis of Matter paragraph, highlighting the material uncertainties in asset valuations stated in your accounts due to the Covid-19 pandemic. This drew attention to this issue and was not a qualification of our audit opinion</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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	Findings and conclusions
<p>Valuation of the pension fund net liability Fire Fighter and Local Government Pension Scheme</p> <p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£464 million in the Authority's 19/20 balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuations; • assessed the accuracy and completeness of the information provided by the Authority to the actuaries to estimate the liabilities; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuaries; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • reviewed the inclusion of remedy within the actuary report • LGPS -obtained assurances from the auditor of Staffordshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. 	<p>Our challenge to the actuary resulted in a revised report being run for 2019/20 which reduced the figures recorded in the draft accounts by £3.7m .This included the McCloud remedy liability which the authority considered an adjusting post balance sheet event due to materiality. LGPS reduction of £1.2m Fire Fighter Pension a reduction of £2.5m.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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	Findings and conclusions
<p>Covid- 19</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We carried out the following work</p> <ul style="list-style-type: none"> • Worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • Evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • Discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence 	<p>The audit has been more challenging for both us and the finance team due to this remote working. There are material uncertainties in the valuation of land and buildings as a result of the pandemic and an increased risk of material estimation uncertainty in the net pension liability. However, we consider that the authority has worked cooperatively with us throughout the audit.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Authority's financial statements on 9 November 2020.

Preparation of the financial statements

The Authority presented us with draft financial statements in accordance with the national deadline, 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 financial statements

We reported the key issues from our audit to the Authority's ETAP and the Commissioner on 28 October 2020.

Annual Governance Statement and Narrative Report

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

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Authority and with our knowledge of the Authority.

Whole of Government Accounts (WGA)

We carried out work on the Authority's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Authority was below the audit threshold on 11 November 2020.

Other statutory powers

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 did not identify any matters which required us to exercise our additional statutory powers.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Staffordshire Commissioner Fire and Rescue Authority in accordance with the requirements of the Code of Audit Practice on 11 November 2020.

Value for Money

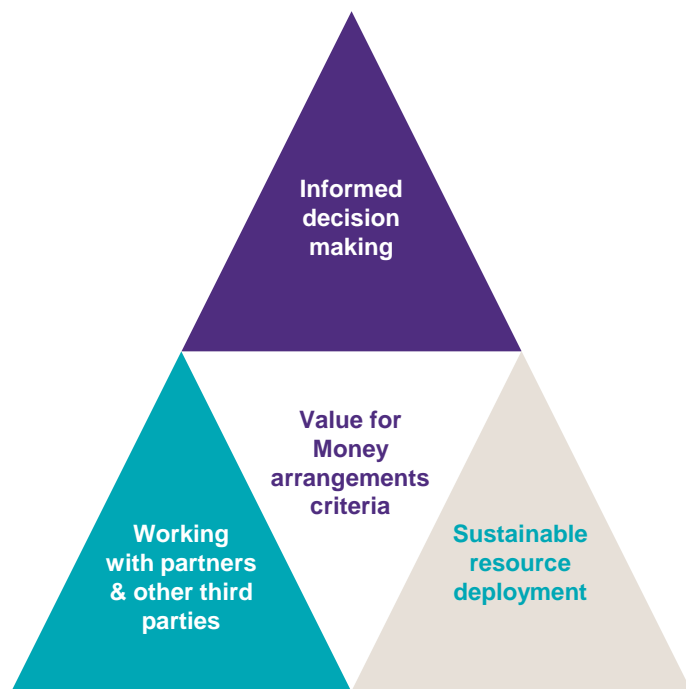
Background to our VFM approach

We are required to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Authority. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in April 2020, taking into account the impact of the outbreak of the Covid 19 pandemic. We did not identify any significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. This was communicated to you via our Audit Plan

We continued to review relevant documents up to the date of giving our report, and did not identify any further significant risks where we need to perform further work.

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.

As detailed at above we have assessed the Authority's arrangements under the criteria outlined by the NAO and have not identified any significant risks.

Overall conclusion

Based on the work we performed, we are satisfied that the Authority had proper arrangements for securing economy, efficiency and effectiveness in its use of resources..

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	February 2020
Audit Findings Report	October 2020
Annual Audit Letter	July 2021

Fees

	Planned £	Actual £
Statutory audit	28,396	48,146
Total fees	28,396	48,146

The variation in audit fee from planned is due to the impact of the Covid -19 pandemic on the audit of your financial statements and has been approved by PSAA.

Fees for non-audit services

Service	Fees £
Non audit related services	Nil

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Authority's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Authority's policy on the allotment of non-audit work to your auditor.



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