



## Local Government Act 1972

**A Meeting of the Combined Fire Authority for County Durham and Darlington Audit and Finance Committee will be held in the County Durham and Darlington Fire and Rescue Service Headquarters on Wednesday 27 September 2023 at 2.30 pm to consider the following business:-**

### PART A

1. Apologies for absence
2. Minutes of the previous meeting - Report of the Chair (Pages 3 - 4)
3. Audit Completion Certificate for 2020/21- Report of External Audit (Pages 5 - 8)
4. Audit Strategy Memorandum 2022/23 - Report of External Audit (Pages 9 - 44)
5. Audit Completion Report 2022/23 - Report of External Audit (Pages 45 - 78)
6. Annual Internal Audit Opinion and Report 2022/23 - Report of Head of Internal Audit (Pages 79 - 92)
7. Annual Review of the System of Internal Audit 2022/23 - Report of Deputy Chief Executive (Pages 93 - 100)
8. Fraud and Corruption Annual Report 2022/23 - Report of Head of Internal Audit (Pages 101 - 106)
9. Internal Audit Progress Report 2022/23 - Report of Head of Internal Audit (Pages 107 - 112)
10. Corporate Risk Register - Position at 31 August 2023 - Report of Deputy Chief Executive (Pages 113 - 120)
11. Short Term Investments and Long-Term Borrowing - Period to 31 March 2023 (Quarter 4) - Report of Treasurer (Pages 121 - 122)
12. Short Term Investments and Long-Term Borrowing - Period to 30 June 2023 (Quarter 1) - Report of Treasurer (Pages 123 - 124)
13. Medium Term Financial Plan Update - Report of Deputy Chief Executive (Pages 125 - 132)
14. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgent to warrant consideration

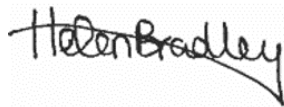
15. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

Part B

**Items during which it is considered the meeting will not be open to the public (consideration of exempt or confidential information)**

16. Internal Audit Outstanding Actions - Report of Internal Audit (Pages 133 - 134)

**PURSUANT** to the provisions of the above named Act, **I HEREBY SUMMON YOU** to attend the said meeting



Helen Bradley  
Clerk to the Combined Fire Authority  
for County Durham and Darlington

County Hall  
Durham  
DH1 5UL

**TO: The Members of the Combined Fire Authority for County Durham and Darlington Audit and Finance Committee**

**Durham County Councillors:**

Councillors A Batey, R Bell, J Blakey, N Jones and B Kellett

**Darlington Borough Councillors:**

Councillors A Anderson

Minutes of the **County Durham and Darlington Fire and Rescue Service Audit and Finance Committee meeting** held at Fire HQ on **6 April 2023 at 10:00hours**.

**Present:** Cllr R Bell (Chair)  
**Durham County Council:** Cllr J Shuttleworth  
Cllr L Mavin  
**Darlington Borough Council:**  
**Officers:** Tony Hope  
**Internal Audit:** Nicola Cooke  
**External Audit (Mazars):** Campbell Dearden

### Part A

#### 1 Apologies

Apologies received from Cllr Neville Jones, Cllr Jan Blakey, Cllr Chris McEwan and Gavin Barker

#### 2 Minutes of the Previous Meetings

The minutes of the previous meeting held on 26 January 2023 were agreed as a true record.

T Hope updated on the actions from the previous meeting. A report on short term investments will be presented at the next Audit and Finance Committee. A report regarding empty buildings is to be presented to the Combined Fire Authority in June or July.

#### 3 Corporate Governance Action Plan Update

T Hope introduced a report updating Members on the progress being made in relation to actions arising from the development of the Authority's corporate governance arrangements.

Each action was discussed in turn.

The report was **considered** and **noted**.

#### 4 Auditors Annual Report 2021 2022

Members received an update on the work that had been undertaken by external audit.

C Dearden noted that it was not possible to issue a certificate formally closing the 2020/21 or the 2021/22 audits as a response was still outstanding from the National Audit Office regarding Whole of Government Accounts.

Work has been undertaken to consider if the Authority has made proper arrangements to ensure Value for Money in its use of resources. C Dearden reported that no risks or weaknesses have been identified across the service and that proper arrangements to ensure value for money are in place.

A fully functioning audit is in place providing accountability and scrutiny and decision-making arrangements are clear. C Dearden noted that the service has received a positive HMICFRS inspection report.

Cllr Bell commended the service for their HMICFRS Inspection report on behalf of the Audit and Finance Committee.

The report was **considered** and **noted**.

## **5 Internal Audit Charter**

N Cooke presented a report requesting approval of the Internal Audit Charter to be applied to all reviews undertaken as part of the Internal Audit Plan for 2023/24.

The Internal Audit Charter was **agreed** and report **noted**.

## **6 Internal Audit Plan 2023/24**

N Cooke introduced a report providing Members with an update on the content of the Internal Audit Plan for the period 01 April 2023 to 31 March 2024.

Cllr Bell queried the number of days noted for catering arrangements, as it appears excessive. N Cooke explained that further work to scope this out will be done and therefore the number of days may reduce.

The Internal Audit Plan 2023/24 was **agreed** and report **noted**.



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Treasurer  
County Durham  
and Darlington Fire and Rescue Authority  
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15 September 2023

Dear Mr Hope

**County Durham and Darlington Fire and Rescue Authority - Issue of Audit Certificate on the Statement of Accounts 2020/21**

We are pleased to attach our signed Audit Certificate for the 2020/21 financial year which formally concludes the 2020/21 audit.

There was a substantial delay in the issue of the Audit Certificate due to us awaiting confirmation from the National Audit Office (NAO) that the Authority would not be selected for additional WGA work as a sampled component. We have now received the confirmation awaited from NAO, and I am delighted to attach our audit certificate dated today.

On 25 November 2021, following approval and certification of the 2020/21 financial statements by the Audit and Finance Committee we issued our Independent Auditor's Report in relation to the accounts for the year ended 31 March 2021. The audit opinion was unqualified.

At that point, we had not yet completed our other areas of work.

We subsequently issued our commentary on Value for Money (VFM) arrangements in our Auditor's Annual Report 2020/21 on 18 January 2022. We did not identify any significant weaknesses or recommendations in relation to the Authority's VFM arrangements.

We issued our report on WGA to NAO on 18 December 2022, following a delay in the issue of group audit instructions for this work by NAO.

As the audit certificate has been issued you are now able to issue the notice required by Regulation 16 of the Accounts and Audit (England) Regulations 2015.

Under Regulation 10 of the Accounts and Audit (England) Regulations 2015 you published on your website:

- the statement of accounts together with any certificate or opinion entered by the local auditor in accordance with section 20(2) of the Act;
- the annual governance statement approved in accordance with regulation 6(3); and
- the narrative statement prepared in accordance with regulation 8.

You also provided a notice of explanation for the delay in the issue of the Audit Certificate.

**You will now be able to publish the attached Audit Certificate for 2020/21 alongside the 2020/21 financial statements and with the Notice you are now required to publish under Regulation 16.**

For the avoidance of doubt, the Independent Auditor's Report for the year ended 31 March 2021 comprises the report issued on 25 November 2021 and incorporated into your financial statements and the Audit Certificate issued today.

Following guidance issued to auditors by the National Audit Office, it is now our policy that our signed audit report should be published as part of the publication of your financial statements on your website.

We have provided you with a copy of the financial statements for the year ended 31 March 2021 including our report on those statements. We outline below your responsibilities in respect of the use of our report.

Please ensure that:

- you only publish the financial statements accompanied by our report on those statements;
- you only publish the financial statements accompanied by any 'other information' provided to us before we issued our report and specifically referred to in our report; and
- you do not publish the financial statements accompanied by any other information not provided to us prior to issuing our report.

Please note that:

- the examination of the controls over the electronic publication of audited financial statements is beyond the scope of the audit of the financial statements and we cannot be held responsible for changes made to audited information after the initial publication of the financial statements and our report; and
- where you wish to publish or distribute the financial statements electronically, you are responsible for ensuring that the publication accurately presents the financial statements and our report on those financial statements. This responsibility also applies to the presentation of any financial information published in respect of prior periods.

Please feel free to contact me if you like clarification on any point. Thank you again to you and your team for the support and cooperation in enabling us to complete the audit of the financial statements in the difficult circumstances this year.

Yours sincerely

*Gavin Barker*

Gavin Barker  
Director

# **Audit Completion Certificate issued to the Members of County Durham and Darlington Fire and Rescue Authority and Group for the year ended 31 March 2021**

In our auditor's report dated 25 November 2021 we explained that the audit could not be formally concluded until we had completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack and the work necessary to satisfy ourselves that the Authority had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

This work has now been completed.

No matters have come to our attention since 25 November 2021 that would have a material impact on the financial statements on which we gave our unqualified opinion.

## **The Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required to report to you if, in our opinion, we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have nothing to report in this respect.

## **Certificate**

We certify that we have completed the audit of County Durham and Darlington Fire and Rescue Authority and the Group for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.



Gavin Barker  
Key Audit Partner  
For and on behalf of Mazars LLP

The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
NE1 1DF

15 September 2023

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# Audit Strategy Memorandum

County Durham and Darlington Fire and Rescue Authority

Year ending 31 March 2023



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Appendix A – Key communication points

Appendix B – Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

This document is to be regarded as confidential to County Durham and Darlington Fire and Rescue Authority. It has been prepared for the sole use of Audit and Finance Committee as those charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Members of the Audit and Finance Committee  
County Durham and Darlington Fire and Rescue Authority  
Service Headquarters  
Belmont Business Centre  
Durham  
DH1 1TW

21 July 2023

Dear Audit and Finance Committee Members

## Audit Strategy Memorandum – Year ending 31 March 2023

We are pleased to present our Audit Strategy Memorandum for County Durham and Darlington Fire and Rescue Authority for the year ending 31 March 2023. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Nexus which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit and explains the implications of the introduction of the new auditing standard for Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019).

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07896 684 771.

Yours faithfully

*Gavin Barker*

Gavin Barker  
Mazars LLP

# 01

Section 01:

## **Engagement and responsibilities summary**

# 1. Engagement and responsibilities summary

## Overview

We are appointed to perform the external audit of County Durham and Darlington Fire and Rescue Authority (the Authority) for the year to 31 March 2023. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website:

<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.



### Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or the Audit and Finance Committee as those charged with governance, of their responsibilities.

The Treasurer is responsible for the assessment of whether it is appropriate for the Authority to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Treasurer's use of the going concern basis of accounting in the preparation of the financial statements.

### Value for money

We are also responsible for forming a commentary on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



### Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and Internal Audit, as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.



### Wider reporting and electors' rights

We report to the NAO on the consistency of the Authority's financial statements with its Whole of Government Accounts (WGA) submission.

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

# 02

Section 02:

**Your audit engagement team**

# 2. Your audit engagement team

Below is your audit engagement team and their contact details.



**Gavin Barker**  
**Engagement Lead**

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**Isha Saini**  
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# 03

Section 03:

**Audit scope, approach and timeline**



# 3. Audit scope, approach and timeline

## Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

## Audit approach

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to the risks identified.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.

# 3. Audit scope, approach and timeline

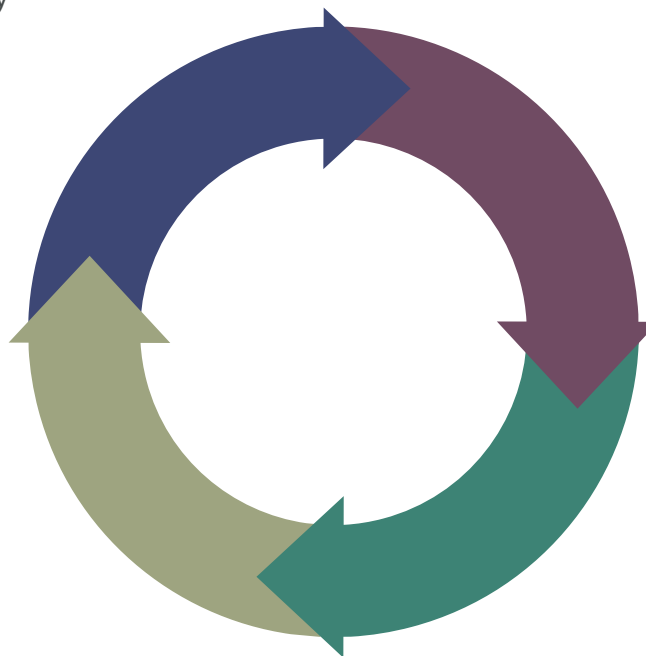
## Planning and Risk Assessment January-March 2023

- Planning visit and developing our understanding of the Authority
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Risk assessment analytical procedures
- Determination of materiality

## Completion September 2023 \*

- Final review and disclosure checklist of financial statements
- Final Director review
- Agreeing content of letter of representation
- Reporting to the Audit and Finance Committee
- Reviewing subsequent events
- Signing the independent auditor's report

\* Subject to receipt of Pension Fund auditor assurance



## Interim March-July 2023

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

## Fieldwork July-September 2023

- Receiving and reviewing draft financial statements
- Delivering our audit strategy starting with significant risks and high risk areas including detailed testing of transactions, account balances and disclosures
- Communicating progress and issues
- Clearance meeting

### 3. Audit scope, approach and timeline

#### Management’s and our experts

Management makes use of experts in specific areas when preparing the Authority’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management’s expert	Our expert
Defined benefit liability	Government Actuary’s department (GAD) for Firefighters; and Aon Hewitt Limited for all other employees	NAO’s Consulting Actuary (PWC)
Property, plant and equipment valuation	Durham County Council Valuer	We will carry out appropriate testing and consider available third party information. See section on significant risks.

#### Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Authority that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Authority and our planned audit approach.

Items of account	Service organisation	Audit approach
Provision and maintenance of the general ledger system (including Accounts Payable and Accounts Receivable) which affects all items of account.	Durham County Council	Mazars is also the auditor of the Council and have direct access to accounting records and staff. Accordingly, we can substantively test the financial statements in the same way as if the Authority did not rely on a service organisation.  We will review and document the controls in place for production of the financial statements and also within the material financial information systems.

### 3. Audit scope, approach and timeline

We are responsible for the audit of the group consolidation. An analysis of County Durham and Darlington Fire and Rescue Authority is shown below, setting out an overview of the type of work to be performed on the financial information of the components (which are both not material for our audit of the Authority and Group).

Entity	Auditor	Scope
County Durham and Darlington Fire and Rescue Authority;	Mazars	Full
Vital Fire Solutions	N/A	Analytical Procedures at group level
County Durham and Darlington Fire and Rescue Community Interest Company	N/A	Analytical Procedures at group level

# 04

Section 04:

**Significant risks and other key judgement areas**

## 4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

### Significant risk

Significant risks are those risks assessed as being close to the upper end of the spectrum of inherent risk, based on the combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. Fraud risks are always assessed as significant risks as required by auditing standards, including management override of controls and revenue recognition.

### Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

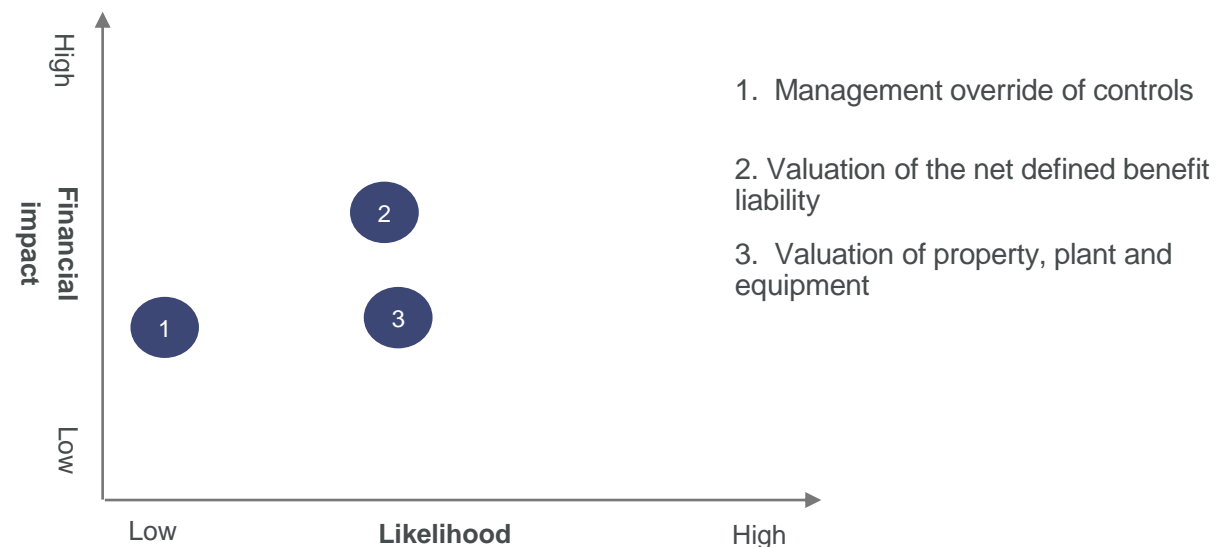
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

### Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

### Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Authority. We have summarised our audit response to these risks on the next page.



Key: ● Significant risk

# 4. Significant risks and other key judgement areas

## Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process and should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit and Finance Committee.

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	<p><b>Management override of controls</b></p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

## 4. Significant risks and other key judgement areas

### Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
2	<p><b>Net defined benefit liability valuation</b></p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	○	●	●	<p>We will discuss with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we will evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally.</p> <p>We will review the appropriateness of the key assumptions included within the valuations, compare them to expected ranges and review the methodology applied in the valuation. We will consider the adequacy of disclosures in the financial statements.</p> <p>We will also seek assurance from the auditor of Durham County Council Pension Fund.</p>



## 4. Significant risks and other key judgement areas

### Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
3	<p><b>Valuation of property, plant and equipment</b></p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Authority's holding of PPE. Although the Authority uses a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the valuation of PPE to be an area of significant risk.</p>	○	●	●	<p>We plan to address this risk by considering the Authority's arrangements for ensuring that PPE values are reasonable and we will use data on valuation trends and relevant indices to assess the reasonableness of the valuations provided by the external valuer. We will also assess the competence, skills and experience of the valuer.</p> <p>We plan to discuss methods used with the valuer and examine supporting information. We will use indices provided by NAO's valuation expert (Montague Evans) to confirm the assets not revalued are unlikely to have materially changed in value. Where material, we will test the revaluations in year to valuation reports and supporting calculation sheets and ensure that the calculations are correct and source data agrees.</p>

# 05

## Section 05: **Value for money**

# 5. Value for money

We are required to form a view as to whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view, and sets out the overall criterion and sub-criteria that we are required to consider.

2022/23 will be the third audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Authority has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Authority's arrangements in the Auditor's Annual Report.

## Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Authority plans and manages its resources to ensure it can continue to deliver its services;
2. **Governance** – how the Authority ensures that it makes informed decisions and properly manages its risks; and
3. **Improving economy, efficiency and effectiveness** – how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

## Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Authority's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Authority and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

### Planning and risk assessment

Obtaining an understanding of the Authority's arrangements for each specified reporting criteria. Relevant information sources will include:

- NAO guidance and supporting information;
- Information from internal and external sources including regulators;
- Knowledge from previous audits and other audit work undertaken in the year; and
- Interviews and discussions with staff and members

### Risk-based procedures and evaluation

Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.

### Reporting

We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report.

Our commentary will also highlight:

- Significant weaknesses identified and our recommendations for improvement; and
- Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Authority.

# 5. Value for money

## Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Authority's arrangements and to identify risks that significant weaknesses in arrangements may exist.

Although we have not fully completed our planning and risk assessment work, we have not identified any risks of significant weaknesses in arrangements in our planning to date. We will report any further identified risks to the Audit and Finance Committee on completion of our planning and risk identification work. We issued our Auditor's Annual Report on our 2021/22 work in February 2023, which included the VFM Commentary required by the Code. This did not identify any significant weaknesses in arrangements or make any recommendations

# 06

Section 06:

**Fees for audit and other services**

## 6. Fees for audit and other services

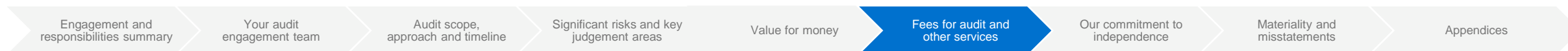
### Page 80 Fees for work as the Authority's appointed auditor

At this stage we are proposing one area where there will be a fee increase in 2022/23 compared to our final fees for 2021/22 (this relates to the implementation of revised ISA 315). There is also an inflationary fee increase which is to be funded by PSAA and is not included in the table below. Additional fees for 2021/22, which in turn will impact on the 2022/23 audit fee, are still subject to finalisation and PSAA approval. All fees are subject to VAT.

Area of work	2022/23 Proposed audit fee (£ excluding VAT)	2021/22 Actual Fee (£ excluding VAT)
Scale audit fee	£28,459	£22,235
Additional fees in respect of group consolidation (recurring) - note that £1,477 of the fee in 2021/22 has been incorporated into the 2022/23 scale audit fee by PSAA	£369	£1,846
Recurring increases in the base audit fee arising from regulatory pressures (as originally agreed in the 2019/20 audit); note that £4,747 of the fee in 2021/22 has been incorporated into the 2022/23 scale audit fee by PSAA	£1,187	£5,934
Additional fees in respect of the VFM approach (recurring, as agreed from the 2020/21 audit)	£5,000	£5,000
Additional fees in respect of the revised ISA 540 (recurring, as agreed from the 2020/21 audit)	£1,900	£1,900
ISA 315 revised – additional work in relation to understanding the entity, including documenting risks, risk assessments, and an additional focus on IT general controls (new standard applied from 2022/23 for the first time)	To be confirmed <sup>1</sup>	£0
<b>Grand total</b>	<b>£36,915 <sup>1</sup></b>	<b>£36,915</b>

Note 1 – there will be an additional fee in the 2022/23 audit for the implementation of ISA 315 (revised), the level of this fee can not be confirmed at this stage, so this fee and the Grand Total for the 2022/23 audit fee are subject to change.

The 2022/23 fee is subject to a 5.2% inflationary increase, not included in the table above. As set out in the PSAA's 'Consultation on 2022/23 audit fee scale' published in August 2022, PSAA will fund the inflationary increase using "surplus funds not required for PSAA's operations, which would otherwise be distributed to opted-in bodies" (p8 of the consultation).



## 6. Fees for audit and other services

### Fees for non-PSAA work

At this stage we are not expecting to undertake any non-PSAA work at the Authority in 2022/23.

# 07

Section 07:

**Our commitment to independence**



## 7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Authority to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Gavin Barker in the first instance.

Prior to the provision of any non-audit services, Gavin Barker will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

# 08

## Section 08: **Materiality and misstatements**

# 8. Materiality and misstatements

## Summary of initial materiality thresholds

Threshold	Initial threshold Authority £'000s	Initial threshold Group £'000s
Overall materiality	1,034	1,042
Performance materiality	828	833
Specific materiality		
• Senior officer remuneration	5	5
• Members expenses and	1	1
• exit packages	20	20
Trivial threshold for errors to be reported to the Audit and Finance Committee.	31	31

## Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Information is considered to be material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

# 8. Materiality and misstatements

## Materiality (continued)

Our provisional materiality is set based on a benchmark of 2% of gross revenue expenditure. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit and Finance Committee.

We consider that gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of gross revenue expenditure at the surplus / deficit level. Based on the 2022/23 draft financial statements, we anticipate the overall materiality for the year ending 31 March 2023 to be in the region of £1.042m for the Group (£1.021m in the prior year) and £1.034m for the Authority (£1.020m for the prior year)

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

## Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

## Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit and Finance Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £31k for the Group and Authority based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Gavin Barker.

## Reporting to the Audit and Finance Committee

The following three types of audit differences above the trivial threshold will be presented to Audit and Finance Committee.

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).



# Appendices

A: Key communication points

B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

# Appendix A: Key communication points

We value communication with the Audit and Finance Committee as 'Those Charged With Governance' as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

## Form, timing and content of our communications

We will present the following reports:

- Audit Strategy Memorandum;
- Audit Completion Report; and
- Auditor's Annual Report.

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

## Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;

- Materiality and misstatements; and
- Fees for audit and other services.

## Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

# Appendix A: Key communication points

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none"> <li>• uncorrected misstatements and their effect on our audit opinion;</li> <li>• the effect of uncorrected misstatements related to prior periods;</li> <li>• a request that any uncorrected misstatement is corrected; and</li> <li>• in writing, corrected misstatements that are significant.</li> </ul>	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> <li>• enquiries of Audit and Finance Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;</li> <li>• any fraud that we have identified or information we have obtained that indicates that fraud may exist; and</li> <li>• a discussion of any other matters related to fraud.</li> </ul>	Audit Completion Report and discussion at the Audit and Finance Committee. Audit planning and clearance meetings

# Appendix A: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• non-disclosure by management;</li> <li>• inappropriate authorisation and approval of transactions;</li> <li>• disagreement over disclosures;</li> <li>• non-compliance with laws and regulations; and</li> <li>• difficulty in identifying the party that ultimately controls the entity.</li> </ul>	<p>Audit Completion Report</p>
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> <li>• our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;</li> <li>• significant difficulties, if any, encountered during the audit;</li> <li>• significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;</li> <li>• written representations that we are seeking;</li> <li>• expected modifications to the audit report; and</li> <li>• other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit and Finance Committee in the context of fulfilling their responsibilities.</li> </ul>	<p>Audit Completion Report</p>
<p>Significant deficiencies in internal controls identified during the audit.</p>	<p>Audit Completion Report</p>
<p>Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.</p>	<p>Audit Completion Report</p>



# Appendix A: Key communication points

Required communication	Where addressed
<p>Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit and Finance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Finance Committee may be aware of.</p>	<p>Audit Completion Report and the Audit and Finance Committee meetings</p>
<p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• whether the events or conditions constitute a material uncertainty;</li> <li>• whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> <li>• the adequacy of related disclosures in the financial statements.</li> </ul>	<p>Audit Completion Report</p>
<p>Reporting on the valuation methods applied to the various items in the consolidated financial statements including any impact of changes of such methods.</p>	<p>Audit Completion Report</p>
<p>Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.</p>	<p>Audit Strategy Memorandum and/or Audit Completion Report as appropriate</p>
<p>Indication of whether all requested explanations and documents were provided by the entity.</p>	<p>Audit Completion Report</p>

# Appendix B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

## Background

ISA (UK) 315 (Revised 2019) introduces major changes to the auditor's risk identification and assessment approach, which are intended to drive a more focused response from auditors undertaking work to obtain sufficient appropriate audit evidence to address the risks of material misstatement. The new standard is effective for periods commencing on or after 15 December 2021 and therefore applies in full for the Authority's 2022/23 audit.

The most significant changes relevant to the Authority's audit are outlined below.

## Enhanced risk identification and assessment

The standard has enhanced the requirements for the auditor to understand the audited entity, its environment and the applicable financial reporting framework in order to identify and assess risk based on new inherent risk factors which include:

- Subjectivity
- Complexity
- Uncertainty and change
- Susceptibility to misstatement due to management bias or fraud.

Using these inherent risk factors, we assess inherent risk on a spectrum, at which the higher end of which lies significant risks, to drive an audit that is more focused on identified risks. Auditors are now also required to obtain sufficient, appropriate evidence from these risk identification and assessment procedures which means documentation and evidence requirements are also enhanced.

## Greater emphasis on understanding IT

In response to constantly evolving business environments, the standard places an increased emphasis on the requirements for the auditor to gain an understanding of the entity's IT environment to better understand the possible risks within an entity's information systems. As a result, we are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs).

## Increased focus on controls

Building on the need for auditors to gain a greater understanding of the IT environment, the standard also widens the scope of controls that are deemed relevant to the audit. We are now required to broaden our understanding of controls implemented by management, including ITGCs, as well as assess the design and implementation of those controls.

## Gavin Barker, Director

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# Audit Completion Report

## County Durham and Darlington Fire and Rescue Authority - Year ended 31 March 2023

September 2023



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[Appendix C: Independence](#)

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Our reports are prepared in the context of the ‘Statement of Responsibilities of auditors and audited bodies’ and the ‘Appointing Person Terms of Appointment’ issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to County Durham and Darlington Fire and Rescue Authority are prepared for the sole use of County Durham and Darlington Fire and Rescue Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

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Bank Chambers  
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Newcastle upon Tyne  
NE1 1DF

18 September 2023

Dear Committee Members

## **Audit Completion Report – Year ended 31 March 2023**

We are pleased to present our Audit Completion Report for the year ended 31 March 2023. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we finalised on 8 August 2023. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate. We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07896 684 771.

Yours faithfully



Gavin Barker

Director, Mazars LLP

# 01

Section 01:

**Executive summary**



# 1. Executive summary

## Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2022/23 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls; and
- Net defined benefit liability valuation; and
- Valuation of land and buildings.

## Misstatements and internal control recommendations

Section 5 sets out internal control recommendations and section 6 sets out any audit misstatements and unadjusted misstatements. Section 7 outlines our work on County Durham and Darlington Fire and Rescue Authority's (the Authority) arrangements to achieve economy, efficiency and effectiveness in its use of resources.

## Status and audit opinion

At the time of preparing this report, there are the following significant matters outstanding as outlined in section 2. We will provide an update to you in relation to the significant matters outstanding through issuance of a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



### Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.



### Value for Money

We anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 7 of this report.



### Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Authority's WGA submission. We are unable to commence our work in this area until such instructions have been received.



### Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and to consider any objection made to the accounts. No questions or objections have been received.

# 02

## Section 02: **Status of the audit**

## 2. Status of the audit

There are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Risk of material adjustment or significant change	Description of the outstanding matters
Property, plant and equipment	Medium	Valuation of land and buildings is outstanding.
Pensions	Medium	Completion of our IAS19 work programme including pension fund assurance from the pension fund auditor. Completion of the firefighters pensions work programme.
IT Controls	Low	Completion of IT General Control environment. Reliance on work completed at Durham County Council which is still outstanding.
Disclosure and other areas	Low	Including our presentation and disclosure checklist, narrative report, non-material notes, consolidation into the group financial statements.
Review and closure procedures	Medium	Including reviews of completed work, checking the final version of the financial statements and consideration of any post balance sheet events.
Whole of Government Accounts	Low	Reviewing and submitting the Whole of Governments Accounts consolidation schedules. The NAO has not yet issued guidance to auditors therefore we are unable to complete.

**High** - Likely to result in material adjustment or significant change to disclosures within the financial statements.

**Medium** - Potential to result in material adjustment or significant change to disclosures within the financial statements.

**Low** - Not considered likely to result in material adjustment or change to disclosures within the financial statements.

# 03

## Section 03: **Audit approach**

# 3. Audit approach

## Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in September 2023. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

## Materiality

Our provisional materiality at the planning stage of the audit was set at 2% of gross revenue expenditure at the surplus/deficit level which was £1.042m for the Group and £1.034m for the Authority. No changes to the materiality level set at the planning stage have been made.

## Use of experts

There are no changes to our planned approach since issuing our Audit Strategy Memorandum as set out below:

Item of account	Management's expert	Our expert
Defined benefit liability	Government Actuary's department (GAD) for Firefighters; and Aon Hewitt Limited for all other employees	NAO's Consulting Actuary (PWC)
Property, plant and equipment valuation	Align Property Partners.	

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## Service organisations

There are no changes to our planned approach since issuing our Audit Strategy Memorandum as set out below:

Items of account	Service organisation	Audit approach
Provision and maintenance of the general ledger system (including Accounts Payable and Accounts Receivable) which affects all items of account.	Durham County Council	Mazars is also the auditor of Durham County Council and has direct access to accounting records and staff.  Accordingly, we were able to substantively test the financial statements in the same way as if the Authority did not rely on a service organisation.  We reviewed and documented the controls in place for the production of the financial statements and also within the material financial information systems.

# 3. Audit approach

## Group audit approach

See below, the information on the group audit approach.

Group component	Approach adopted	Key points or other matters to report
County Durham and Darlington Fire and Rescue Authority	Full audit	None
Community Interest Company	Specific audit procedures	Not material therefore our procedures are only to agree the components financial information and consolidation into the group financial statements.
Vital Fire Solutions	Specific audit procedures	Not material therefore our procedures are only to agree the components financial information and consolidation into the group financial statements.

### Full audit

Performance of an audit of the component's financial information prepared for group reporting purposes using component materiality

### Audit of balances and/or disclosures

Performance of an audit of specific balances and/or disclosures included in the component's financial information prepared for group reporting purposes, using component materiality

### Specific audit procedures

Performance of specific audit procedures on the component's financial information

### Review procedures

Review of the component's financial information prepared for group reporting purposes using the component materiality assigned

# 04

## Section 04: **Significant findings**

## 4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 14 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

### Significant risks

---

<b>Management override of controls</b>	<b>Description of the risk</b>
	In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	<b>How we addressed this risk</b> We addressed this risk through performing audit work over: <ul style="list-style-type: none"><li>• Accounting estimates impacting amounts included in the financial statements;</li><li>• Consideration of identified significant transactions outside the normal course of business; and</li><li>• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li></ul>
	<b>Audit conclusion</b> There are no significant issues arising from our work that we are required to report to you subject to completion of outstanding areas.

---



## 4. Significant findings

<b>Net defined benefit liability valuation</b>	<b>Description of the risk</b> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement</p>
	<b>How we addressed this risk</b> <p>We discussed with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally.</p> <p>We reviewed the appropriateness of the key assumptions included within the valuations, compared them to expected ranges and reviewed the methodology applied in the valuation. We considered the adequacy of disclosures in the financial statements.</p> <p>We also sought assurance from the auditor of Durham County Council Pension Fund.</p>
	<b>Audit conclusion</b> <p>Our work is ongoing in this area. We also require the pension fund auditor's letter of assurance. We have not identified any significant issues to bring to your attention at this stage.</p>

<b>Valuation of land and buildings</b>	<b>Description of the risk</b> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Authority's holding of PPE.</p> <p>Although the Authority uses a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the valuation of PPE to be an area of significant risk</p>
	<b>How we addressed this risk</b> <p>We addressed this risk by considering the Authority's arrangements for ensuring that PPE values are reasonable and we used data on valuation trends and relevant indices to assess the reasonableness of the valuations provided by the external valuer. We also assessed the competence, skills and experience of the valuer.</p> <p>We discussed methods used with the valuer and examined supporting information. We used indices provided by NAO's valuation expert (Montague Evans) to confirm the assets not revalued are unlikely to have materially changed in value. We tested the revaluations in year to valuation reports and supporting calculation sheets to ensure that the calculations were correct and source data agrees.</p>
	<b>Audit conclusion</b> <p>Our work is ongoing in this area. We have not identified any significant issues to bring to your attention at this stage.</p>

## 4. Significant findings

### Qualitative aspects of the Authority's accounting practices

We have reviewed the Authority's accounting policies and disclosures and concluded they comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets, published in November 2022, appropriately tailored to the Authority's circumstances.

Draft accounts were received from the Authority by 30 June 2023 and were of a good quality, supported by good working papers.

### Significant matters discussed with management

There were no significant matters discussed with management.

### Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

### Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law;
- make an application for judicial review; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2022/23 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No such questions or objections have been raised.

# 05

## Section 05: **Internal control recommendations**

## 5. Internal control recommendations

As part of our audit of the financial statements, we obtained an understanding of internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to Audit and Finance Committee (as those charged with governance) any significant deficiencies identified during the course of our work.

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

No significant findings or recommendations in relation to internal controls have been noted as at the date of this report.

# 06

Section 06:

## Summary of misstatements

## 6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £31k. There were no adjusted or unadjusted errors over the triviality threshold.

### Disclosure amendments

There were a small number of trivial errors and typos which we have not reported. We identified the following adjustments during our audit that have been corrected by management:

**Expenditure and funding analysis:** Some minor amendments to the presentation of the note to reflect the movements in reserves.

# 07

## Section 07: **Value for Money**

# 7. Value for Money

## Approach to Value for Money

We are required to consider whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Authority plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Authority ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Authority uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work to understand the arrangements that the Authority has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

At the planning stage of the audit, we did not identify any risks of significant weaknesses in arrangements.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Authority's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report in after we have issued our audit opinion on the financial statements.

## Status of our work

We are yet to complete our work in respect of the Authority's arrangements for the year ended 31 March 2023. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however we continue to undertake work on the Authority's arrangements.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to the Authority's arrangements. As noted above, our commentary on the Authority's arrangements will be provided in the Auditor's Annual Report.



# Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

# Appendix A: Draft management representation letter

Page 6 of 8  
Gavin Barker  
Mazars  
The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
NE1 1DF

September 2023

Dear Gavin

## **County Durham and Darlington Fire and Rescue Authority and the Group - audit for year ended 31 March 2023**

This representation letter is provided in connection with your audit of the financial statements of County Durham and Darlington Fire and Rescue Authority and Group (the Authority and Group) for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets ("the Code Update"), published in November 2022.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

### **My responsibility for the financial statements and accounting information**

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code.

### **My responsibility to provide and disclose relevant information.**

I have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to individuals within the Authority and Group you determined it was necessary to contact in order to obtain audit evidence.

I confirm as s151 Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

### **Accounting records**

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Authority and relevant committee meetings, have been made available to you.

### **Accounting policies**

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Authority and Group's financial position, financial performance and cash flows.

### **Accounting estimates, including those measured at fair value**

I confirm that any significant assumptions used by the Authority and Group in making accounting estimates, including those measured at fair value, are reasonable.

# Appendix A: Draft management representation letter

## Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- Information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- The amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Authority and Group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with Code.

## Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom. We have complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

## Fraud and error

I acknowledge my responsibility as s151 Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error. I have disclosed to you:

- All the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- All knowledge of fraud or suspected fraud affecting the Authority and Group involving:
  - management and Those Charged With Governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Authority and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

## Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code. I have disclosed to you the identity of the Authority and Group's related parties and all related party relationships and transactions of which I am aware.

## Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment and intangible assets below their carrying value at the statement of financial position date. An impairment review is therefore not considered necessary.

# Appendix A: Draft management representation letter

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## Charges on assets

All the Authority and Group's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

## Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

## Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in relation to the Authority and Group's PFI schemes that you have not been made aware of.

## Ukraine

We confirm we have carried out an assessment of the potential impact of Russian Forces entering Ukraine on the Authority and Group and there is no significant impact on the Authority and Group's operations from restrictions or sanctions in place.

## Global Banking Challenges

We confirm that we have assessed the impact on the Authority of the on-going Global Banking challenges, in particular whether there is any impact on the Authority's ability to continue as a going concern, and on the post balance sheet events disclosures.

We confirm that our exposure (either direct cash exposure or direct / indirect through investments) with Silicon Valley Bank, Credit Suisse, Signature Bank or any other bank in a distress situation, is not material.

## Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed. Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

## Going concern

I confirm that I have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on the Authority and Group, including the impact of mitigation measures and uncertainties and am satisfied the going concern assumption remains appropriate and that no material uncertainty has been identified.

To the best of my knowledge there is nothing to indicate that the Authority and Group will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

## Annual Governance Statement

I am satisfied that the Annual Governance Statement (AGS) fairly reflects the Authority and Group's risk assurance and governance framework and I confirm that I am not aware of any significant risks that are not disclosed within the AGS.

## Unadjusted misstatements

I confirm that the effects of any uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix (if required)

Yours sincerely

S151 Officer

# Appendix B: Draft audit report

## Independent auditor's report to the members of County Durham and Darlington Fire and Rescue Authority

### Report on the audit of the financial statements

#### Opinion on the financial statements

We have audited the financial statements of County Durham and Darlington Fire and Rescue Authority (the Authority) and its subsidiaries (the Group) for the year ended 31 March 2023, which comprise the Group Movement in Reserves Statement, Group Comprehensive Income and Expenditure Statement, Group Balance Sheet, Group Cash Flow Statement, Authority Movement in Reserves Statement, Authority Comprehensive Income and Expenditure Statement, Authority Balance Sheet, Authority Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets ("the Code Update"), published in November 2022.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority and the Group as at 31st March 2023 and of the Authority's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Authority and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, and taking into account the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Treasurer with respect to going concern are described in the relevant sections of this report.

# Appendix B: Draft audit report

## Other information

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The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Treasurer is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Responsibilities of the Treasurer for the financial statements**

As explained more fully in the Statement of the Treasurer's Responsibilities, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update, and for being satisfied that they give a true and fair view. The Treasurer is also responsible for such internal control as the Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Treasurer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update and prepare the financial statements on a going concern basis, on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future. The Treasurer is responsible for assessing each year whether or not it is appropriate for the Authority and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

# Appendix B: Draft audit report

Based on our understanding of the Authority, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- inquiring with management and the Audit and Finance Committee, as to whether the Authority is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Authority and the Group which were contrary to applicable laws and regulations, including fraud.

We evaluated the Treasurer's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit and Finance Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit and Finance Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

We are also required to conclude on whether the Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in February 2023.

# Appendix B: Draft audit report

Page 28  
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Report on the Authority's arrangements for securing economy, efficiency, and effectiveness in its use of resources**

### **Matter on which we are required to report by exception**

We are required to report to you if, in our view we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have not completed our work on the Authority's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in January 2023, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2023. We will report the outcome of our work on the Authority's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

### **Responsibilities of the Authority**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency, and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### **Auditor's responsibilities for the review of arrangements for securing economy, efficiency, and effectiveness in the use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency, and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023.

### **Matters on which we are required to report by exception under the Code of Audit Practice**

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



# Appendix B: Draft audit report

## Use of the audit report

This report is made solely to the members of County Durham and Darlington Fire and Rescue Authority, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority as a body, for our audit work, for this report, or for the opinions we have formed.

## Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed

- the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack; and
- the work necessary to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources.

Gavin Barker  
Director  
For and on behalf of Mazars LLP

The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
NE1 1DF

DATE (TBC)





# Appendix C: Independence

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As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

# Appendix D: Other communications

Other communication	Response
 <b>Compliance with Laws and Regulations</b>	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
 <b>External confirmations</b>	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
 <b>Related parties</b>	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ol style="list-style-type: none"> <li>they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and</li> <li>they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.</li> </ol>
 <b>Going concern</b>	<p>We have not identified any evidence to cause us to disagree with the Treasurer that County Durham and Darlington Fire and Rescue Authority will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>

# Appendix D: Other communications (continued)

Other communication	Response
 <b>Subsequent events</b>	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
 <b>Matters related to fraud</b>	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and the Audit and Finance Committee (as those charged with governance), confirming that:</p> <ol style="list-style-type: none"><li>a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;</li><li>b. they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud;</li><li>c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving:<ol style="list-style-type: none"><li>i. Management;</li><li>ii. Employees who have significant roles in internal control; or</li><li>iii. Others where the fraud could have a material effect on the financial statements; and</li></ol></li><li>d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.</li></ol>

## Gavin Barker, Director

[gavin.barker@mazars.co.uk](mailto:gavin.barker@mazars.co.uk)

### Mazars

The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
NE1 1DF

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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County Durham and Darlington  
Fire and Rescue Authority



**Safest People, Safest Places**

## **Audit and Finance Committee**

**27 September 2023**

## **Annual Internal Audit Opinion and Report 2022/23**

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### **Report of the Head of Internal Audit**

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#### **Purpose of the Report**

1. The purpose of this report is to present the Annual Internal Audit Report for 2022/23 which is attached as Appendix 1.

#### **Background**

2. The Public Sector Internal Audit Standards (PSIAS) 2017 state that the provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. Consulting services are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control but still contribute to the overall opinion however each review does not deliver individual assurance opinions.
3. Based on the work undertaken, we are able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of the governance, risk management and internal control arrangements operating across the Authority in 2022/2023. The level and nature of internal audit work undertaken has not required the Chief Internal Auditor and Corporate Fraud Manager to provide a formal Limitation on the Opinion to be delivered and as such there are no qualifications to this opinion.
4. This moderate opinion provides assurance that whilst there is basically a sound system of control, there are some weaknesses, which expose objectives to risk.
5. All Internal Audit work carried out in 2022/23 was in accordance with proper internal audit practices as described within the Public Sector Internal Audit Standards (PSIAS).

6. This report fulfils the requirements of PSIAS and the CIPFA Local Government Application note for the Chief Internal Auditor and Corporate Fraud Manager to deliver an annual audit opinion and a report on the effectiveness of the Internal Control environment.
7. The Annual Internal Audit Report should therefore be considered in the context of fulfilling the above requirement.
8. The opinion on the control environment and any significant issues arising will be reflected in the Authority's Annual Government Statement (AGS) which will be published alongside the Authority's Annual Statement of Accounts for 2022/23. It is specifically timed to be considered as part of the annual review of governance and internal control and is reported alongside the Review of Effectiveness of Internal Audit.
9. Internal Audit therefore has a professional duty to provide an unbiased and objective view of the Internal Control environment. Internal Audit is independent of the processes that it evaluates and as such reports to the Senior Leadership Team and Audit and Finance Committee.
10. No system of internal control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.
11. As a result, there are no adverse implications for the Annual Governance Statement arising from any of the work that Internal Audit has undertaken in 2022/23. All of the risks raised within Internal Audit reports have been accepted. Internal Audit's recommendations, or alternative proposed actions made by Management in response to the risk issues, have been agreed to be implemented. Full implementation of the agreed actions will realise the benefits of the control improvements detailed in each individual audit report. Internal Audit will follow up the implementation of its recommendations, or any agreed alternative actions, with the relevant responsible officers, as soon as is practically possible, after the target implementation dates. Progress on the implementation of audit recommendations will be reported through to this Committee in future progress reports on the 2023/24 Internal Audit work.

## **Recommendation**

12. Members are **asked to:**
  - **consider** the Annual Internal Audit Report and the overall opinion provided on the adequacy and effectiveness of the Authority's control environment for 2022/23.

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**Nicola Cooke, Audit Manager, Tel: 03000 269665**

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# **COUNTY DURHAM AND DARLINGTON FIRE AND RESCUE AUTHORITY**

## **Internal Audit**

### **Annual Report 2022-2023**

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## Appendices

- Appendix A: Performance Indicators
- Appendix B Key Advice and Consultancy Work Undertaken in 2022/2023
- Appendix C Assurance Opinion Methodology
- Appendix D Summary of Assurance Work

## **Introduction**

1. This report summarises work carried out by Internal Audit during 2022/23 and provides assurance on the effectiveness of the Authority's control environment, risk management and corporate governance arrangements in place during the year.
2. The requirement for an internal audit function is implied by Section 151 of the Local Government Act 1972 which requires all relevant bodies to, "make arrangements for the proper administration of their financial affairs and ensure that one of its officers has responsibility for the administration of those affairs".
3. The Accounts and Audit Regulations 2015 require those bodies to, "undertake an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control".
4. The Public Sector Internal Audit Standards (PSIAS) define the proper internal control practice for internal audit alongside the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note.
5. This report fulfils the requirements of PSIAS and the CIPFA Local Government Application Note for the Chief Internal Auditor and Corporate Fraud Manager to deliver an annual audit opinion and a report that can be used by the Committee to inform its Annual Governance Statement.
6. The report sets out:
  - The annual internal audit opinion on the overall adequacy and effectiveness of the governance, risk and control framework (the control environment).
  - A summary of the audit work carried out from which the opinion is derived.
  - Details of the quality assurance arrangements in place during 2022/2023.

## **Service Provided and Audit Methodology**

7. Internal Audit is an independent, objective assurance and consultancy activity designed to add value and improve an organisation's operations.
8. The primary objective of Internal Audit is to provide an independent and objective opinion on the Authority's control environment which is comprised of the systems of governance, risk management and internal control.
9. The Internal Audit Charter, agreed by the Senior Leadership Team and Audit and Finance Committee, establishes and defines the terms of reference and strategy for how the service is to be delivered.

10. The agreed audit strategy to provide independent assurance, is summarised as follows:
- To carry out planned assurance reviews of the effectiveness of the management of operational risks in all key service activities/systems.
  - To carry out assurance reviews of the management of strategic risks where the effective management of risk is heavily dependent on identified controls.
  - To carry out annual reviews of key risks where a high level of assurance is required to demonstrate the continuous effectiveness of internal controls, for example those associated with key financial and non-financial systems.
  - To use a Control Risk Assessment (CRA) methodology to focus audit resources on providing assurance on key controls where there is little or no other independent assurance on their adequacy or effectiveness.

## **Types of Audit Work Carried Out in 2022/23**

### **Assurance Reviews**

11. Assurance reviews are those incorporated into annual audit plans where the CRA methodology is to be applied. They also include service requests to provide assurance on more specific risks within a particular service activity.
12. On completion of each assurance review an opinion on the adequacy and / or the effectiveness of the control framework in place is provided to inform the annual audit opinion.
13. The audit methodology for arriving at audit opinions on individual assurance reviews is attached at **Appendix C**.

### **Advice and Consultancy Work**

14. In addition to planned assurance reviews, provision is also made in annual audit plans to support service managers by undertaking advice and consultancy type work. The outcomes from this work can also provide assurance on the control framework even though an assurance opinion is not provided on the completion of this work.

### **Counter Fraud Work**

15. Provision is made in annual audit plans to support service managers at an operational level to mitigate the strategic risk of fraud and corruption. Control weaknesses identified when fraud is suspected or proven also impacts on the overall opinion on the adequacy and effectiveness of the internal control system.

## **Audit Quality Assurance framework**

16. The Internal Audit Charter sets out the performance and quality framework for the service. This reflects the requirements of the PSIAS.
17. Key elements of the quality assurance framework operating during 2022/23 include:
  - Independent quality reviews undertaken by Audit Managers as a matter of routine and periodically by the Chief Internal Auditor and Corporate Fraud Manager to ensure consistent application of agreed processes and procedures and to ensure expected quality standards are maintained.
  - Key contacts, determined by the Authority, agree the Terms of Reference for each audit review and are able to challenge the findings and content of draft reports prior to them being finalised.
18. A summary of performance against agreed indicators is given in **Appendix A**.
19. The PSIAS require that an annual review of the effectiveness of Internal Audit is carried out, with an external assessment every five years. Following a self-assessment by the Interim Chief Internal Auditor and Corporate Fraud Manager, in June 2021, which established that the service continues to conform with the PSIAS, an external quality assessment of the Internal Audit Service's conformance to the Public Sector Internal Audit Standards (PSIAS) and CIPFA Local Government Application Note during 2021/22 was carried in February 2022 by the Chartered Institute of Public and Finance and Accountancy (CIPFA).
20. For 2022/23, with regards to compliance with the key elements of the PSIAS the following matters were considered:
  - The structure and resourcing level, including qualifications and experience of the audit team;
  - The extent of conformance with the PSIAS in producing quality work;
  - Ensuring audit work was successfully delivered in the most appropriate areas on a prioritised (risk) basis;
  - The overall performance of the Internal Audit team.
21. The opinion delivered by CIPFA's external assessment is that '**Durham County Council's Internal Audit Service's self-assessment is accurate and as such we conclude that they FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note**' and the outcome of the review was reported to County Council's Audit Committee at its meeting on 01 July 2022.

## **Summary of audit work carried out**

### ***Assurance Work***

22. Our work programme for the year was determined by the approved Internal Audit Plan. A summary of all assurance opinions provided in year together with the most recent opinion for those activities not included in the plan to provide a better informed opinion on the entire control environment, is attached at **Appendix D**.

### ***Advice and Consultancy Work***

23. All planned reviews are designed to add value as they provide independent assurance, through evaluation and challenge, on the adequacy and effectiveness of arrangements in place to manage risks. This evaluation and challenge supports the effective and efficient use of resources and VFM.
24. Through our advice and consultancy work we are able to add value pro-actively and reactively.
25. Reactive work involves responding to ad-hoc requests for advice and reviews added to the plan to address new or emerging risks. It also includes responding to potential fraud or irregularities and we ensure that all such incidents are properly investigated and that appropriate action is taken by managers, whether or not fraud or malpractice is proven.
26. A summary of key advice and consultancy work completed during the year is attached at **Appendix B**.

### **Key Areas for Opinion**

27. The key areas of the control environment where assurance is required to inform our overall opinion are:
  - Financial Management
  - Risk Management
  - Corporate Governance
28. Assurance has been provided on some aspects of key financial systems during the year. Reviews undertaken include Headquarters (income and expenditure), Payroll, and Treasury Management,
29. Assurance on the effectiveness of the Authority's risk management arrangements has been provided through the identification of operational risks and effectiveness of mitigating controls within each review undertaken. In addition, a review of Service Strategic Risk Management arrangements that considered the Service Leadership Team's consideration of the content, scoring and refreshing of activities included in the strategic risk register was undertaken.
30. Internal Audit has worked with key officers from the Authority to complete the Annual Governance Statement. An action plan is to be completed to enable significant areas identified for improvement in the 2022/23 Annual Governance Statement to be monitored and which will be reported to the Audit and Finance Committee during the year to come.

### **Audit Opinion Statement**

31. The Authority has responsibility for maintaining a sound system of internal control that supports the achievement of its objectives.
32. Internal Audit is required to provide an opinion on the Authority's risk management, control and governance process.

33. In giving this opinion it should be noted that assurance can never be absolute and therefore only reasonable assurance can be provided that there are no major weaknesses in these processes.
34. In assessing the level of assurance to be given, we based our opinion on:
- All audits undertaken during the year
  - Follow up action on audit recommendations
  - Any significant recommendations not accepted by management and the consequent risk
  - The effects of any significant changes in the Authority's systems
  - Matters arising from previous reports to the Audit and Finance Committee
  - Limitations which may have been placed on the scope of the internal audit
  - The reliability of other sources of assurance when determining the scope of audit reviews.
35. Based on the work undertaken, Internal Audit is able to provide a Moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the Authority in 2022/23.
36. The moderate opinion provides assurance that there is a sound system of control in place however there are some weaknesses and evidence of ineffective controls.
37. Where Internal Audit has identified areas for improvement, recommendations are made to minimise the level of risk, and action plans for their implementation were drawn up and agreed by management. Whilst the % of actions implemented within target dates is high, in many cases there is a time gap between a control weakness being reported and the date determined by management for when the action can practically and realistically be implemented. Consequently, the added assurance provided on implementation cannot always be recognised and evidenced in arriving at our overall annual assurance opinion. Work is ongoing with management with regards to timely and realistic implementation dates for actions being agreed.

## Appendix A

## PERFORMANCE INDICATORS

## Efficiency

Objective: To provide maximum assurance to inform the annual audit opinion

KPI	Measure of Assessment	Target & (Frequency of Measurement)	Q4 Actual
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage as at 31 March 2023.	90% (Quarterly)	78% (14 out of 18 reviews completed)
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure interview Average time taken is also reported for information	90% (Quarterly)	100% (11 reports issued)
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response Average time taken is also reported for information	95% (Quarterly)	100% (11 reports issued)
Terms of Reference	% of TOR's agreed with key contact in advance of fieldwork commencing	95% (Quarterly)	100% (15 TOR's issued)

## Quality

Objective: To ensure that the service is effective and adding value

KPI	Measure of Assessment	Target & (Frequency of Measurement)	
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Quarterly)	100% (47 accepted out of 47 made)
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service good or above (3 out of 5) where 1 is poor and 5 is very good Average score is also reported for information	100% (Quarterly)	100% (5 out of 11 returned) Overall average score 4.5
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)	45.5% (5 returned from 11 surveys issued in 2022/23)



## **KEY ADVICE AND CONSULTANCY WORK UNDERTAKEN IN 2022/23**

Whilst no formal advice and consultancy reviews have been undertaken for the Authority during 2022/23, Internal Audit has maintained its links with the Authority's key officers to discuss ongoing matters on an ad hoc / informal basis.

**Findings**

Individual risks are assessed on their impact and likelihood based on the assessment rationale in the tables below:

<b>Impact Rating</b>	<b>Assessment Rationale</b>
<b>Critical</b>	<b>A risk that could have a:</b>
	<b>Critical</b> impact on operational performance (Significant disruption to service delivery)
	<b>Critical</b> monetary or financial statement impact (In excess of 5% of service income or expenditure budget )
	<b>Critical</b> breach in laws and regulations that could result in significant fine and consequences (Intervention by regulatory body or failure to maintain existing status under inspection regime)
	<b>Critical</b> impact on the reputation of the Authority (Significant reputational damage with partners/central government and/or significant number of complaints from service users)
	<b>Critical</b> impact on the wellbeing of employees or the public (Loss of life/serious injury to employees or the public)
<b>Major</b>	<b>A risk that could have a:</b>
	<b>Major</b> impact on operational performance (Disruption to service delivery)
	<b>Major</b> monetary or financial statement impact (1-5% of service income or expenditure budget )
	<b>Major</b> breach in laws, regulations or internal policies and procedures (non compliance will have major impact on operational performance, monetary or financial statement impact or reputation of the service)
	<b>Major</b> impact on the reputation of the service within the Authority and/or complaints from service users
<b>Minor</b>	<b>A risk that could have a:</b>
	<b>Minor</b> impact on operational performance (Very little or no disruption to service delivery)
	<b>Minor</b> monetary or financial statement impact (less than 1% of service income or expenditure budget )
	<b>Minor</b> breach in internal policies and procedures (non compliance will have very little or no impact on operational performance, monetary of financial statement impact or reputation of the service)

<b>Likelihood</b>	<b>Assessment criteria</b>
<b>Probable</b>	Highly likely that the event will occur (>50% chance of occurring)
<b>Possible</b>	Reasonable likelihood that the event will occur (10% - 50% chance of occurring)
<b>Unlikely</b>	The event is not expected to occur (<10% chance of occurring)

**Overall Risk Rating**

This grid is used to determine the overall risk rating.

<b>LIKELIHOOD</b>			
Probable	M	H	H
Possible	L	M	H
Unlikely	L	L	M
	Minor	Major	Critical
		<b>IMPACT</b>	

**Priority of our recommendations**

We define the priority of our recommendations arising from each overall finding as follows;

<b>High</b>	Action required, that is considered <b>imperative</b> , to improve the control environment so that objectives are not exposed to unacceptable risks through lack of or weaknesses in critical or key controls.
<b>Medium</b>	Action required to improve the control environment so that objectives are not exposed to risks through weaknesses in controls.
<b>Best Practice</b>	The issue merits attention and its implementation will enhance the control environment.

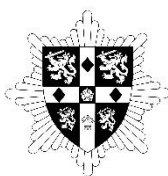
**Overall Assurance Opinion**

Based upon the ratings of findings and recommendations arising during the audit as summarised in the risk matrix above we define the overall conclusion of the audit through the following assurance opinions:

<b>Substantial Assurance</b>	There is a sound system of control. Any weaknesses identified expose some of the system objectives to minor risk.
<b>Moderate Assurance</b>	Whilst there is basically a sound system of control, there are some weaknesses, which expose objectives to risk.
<b>Limited Assurance</b>	There are weaknesses in key areas in the system of control, which expose objectives to unacceptable levels of risk.

<b>SUMMARY OF ASSURANCE WORK CARRIED OUT</b>	
<b>Audit Area</b>	<b>Latest Opinion</b>
Risk Management	2022/23
Ethics - Transparency / Gifts and Hospitality and Register of Interests/FOI/Members Allowances and Expenses	2022/23
Partnerships	2018/19
Business Continuity Planning	2021/22
General Data Protection Regulation (GDPR) - Community Risk Management	2019/20
Absence Management	2021/22
Recruitment and Selection - GDPR and HMG Baseline Personnel Security Standard	2019/20
Key Financial Systems – Creditors, Debtors, Income	2022/23
Payroll	2021/22
Treasury Management	2022/23
VAT	2019/20
Procurement and Contracts	2020/21
Asset Management / Building Maintenance	2019/20
Vehicle / Plant Management	2019/20
Vital Fire Solutions	2020/21
Mobile Working	2019/20
Security Incident Management	2018/19
Removeable Media	2019/20
Cloud Security	2018/19
Network Management	2022/23
Firewall	2017/18
SQL Server	2017/18
ICT Systems Management - Identity and Access Management	2020/21
Performance – Data Quality	2021/22
Change Control	2016/17
Back Up Achieve Procedure	2016/17
User Education and Awareness	2021/22
ICT Procurement	2020/21
ICT Budget Management – Capital Planning	2021/22
Review of Fire Authority Efficiency and Effectiveness	2016/17
<b>COUNTER FRAUD</b>	
National Fraud Initiative	N/A
Fraud and Corruption Survey	N/A
Overall Opinion	2022/23
Assurance Opinion Key	
Substantial	Moderate
Limited	

County Durham and Darlington  
Fire and Rescue Authority



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## **Audit and Finance Committee**

**27 September 2023**

### **Annual Review of the System of Internal Audit 2022/23**

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#### **Report of the Deputy Chief Executive**

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##### **Purpose of the Report**

1. The purpose of this report is for Members of the Audit and Finance Committee to consider and comment on the Annual Review of the System of Internal Audit.

##### **Background**

2. The Accounts and Audit Regulations 2015 require that “a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit” and confirm that the findings of the review “must be considered as part of the consideration of the system of internal control”.
3. Internal Audit is defined as the means by which the Authority assesses its governance and assurance requirements, ensuring that an effective internal control system is in place. Outcomes from the current governance process are evaluated and reported in the Authority’s Annual Governance Statement.
4. To address the Accounts and Audit Regulations requirement, an assessment of Internal Audit has been carried out and is presented for consideration by those charged with governance.
5. The review, attached as Appendix 1, has been considered by the Deputy Chief Executive and it is our opinion that the service is effective.

##### **Recommendation**

6. Members are asked to consider the findings and conclusions of the 2022/23 review of the effectiveness of the system of Internal Audit contained within this report.

Tony Hope Deputy Chief Executive, 0191 3755558

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## **ANNUAL REVIEW OF THE SYSTEM OF INTERNAL AUDIT REPORT OF THE HEAD OF INTERNAL AUDIT**

### **Current Arrangements for Internal Audit**

1. A dedicated Internal Audit Service forms part of the system of Internal Audit for the Authority. The Service is part of the Internal Audit, Risk and Corporate Fraud Division of Durham County Council. Service delivery is by way of a Service Level Agreement that is in place through to 31 March 2023. The Service is led by the Chief Internal Auditor and Corporate Fraud Manager with day to day provision being overseen by an Audit Manager. The Service works closely with those Officers and staff of the Authority tasked with governance, assurance and risk management.
2. The Audit Manager reports directly to the Deputy Chief Executive but also has direct access to the Chief Fire Officer and Audit and Finance Committee.
3. At the start of 2022/23 the team comprised of 15 approved posts (14.35 FTE) plus the Chief Internal Auditor and Corporate Fraud Manager.
4. The vision for the Internal Audit Service is described in the Annual Internal Audit Plan, the Service Terms of Reference (TOR) within the Internal Audit Charter and defines the principles of how it operates in delivering the Service to the Authority. The TOR provides appropriate arrangements to ensure the Service is sufficiently independent and objective and that there is access to all information and people required to discharge its responsibilities. The Charter and TOR were last presented to the then Audit and Finance Committee on 6 April 2023.
5. Arrangements for investigation work are defined in the policies and procedures for Counter Fraud and Confidential Reporting (Whistleblowing) and the Audit Manager works closely with the Deputy Chief Executive. A summary of work undertaken is provided for the Audit and Finance Committee in the Annual Fraud and Corruption Report.

### **Effectiveness of the Internal Audit Service**

6. To examine the effectiveness of the Internal Audit Service for the past year, this annual review considered several key elements and assessed their contribution to enabling the Service to fulfil its responsibilities. These were:
  - The structure and resourcing level, including qualifications and experience of the audit team.
  - The extent of conformance with the PSIAS in producing quality work.
  - Ensuring audit work was successfully delivered in the most appropriate areas on a prioritised (risk) basis.
  - The overall performance of the Internal Audit team.

## Resourcing, Structure, Training and Experience

### Resourcing

- Audit work was actively managed within the resource available and progress toward delivery of the agreed Annual Internal Audit plan was reviewed regularly. The focus was maintained on clear scoping and coverage for assurance activity; timing of work and availability of nominated officers and staff; and control over the allocation of resources for in-year requests for support. Alternative means for gaining assurance were assessed and used where appropriate to support audit opinions. Progress and outcomes were regularly reported to the Deputy Chief Executive and the Audit and Finance Committee.

### Structure

- The structure of the Internal Audit Service is intended to remain the same going forward into 2023/24 thereby allowing the opportunity for auditors to continue to develop a depth of knowledge and client relationships. This, wherever possible, offers continuity to clients who can then regularly deal with the same auditors over a period of time. We consider this approach continues to be successful in building a better understanding of the business needs and objectives of the Authority. However this does need to be balanced against a need for staff rotation for development purposes and to maintain objectivity.

### Training and Experience

- Training and development within the Service is progressed through the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Internal Auditors (IIA), the Association of Accounting Technicians (AAT) and Continuing Professional Development (CPD).
- During the year, one auditor further progressed their IIA studies and all other employees hold at least one audit qualification. For CPD all employees have access to and attended events selected from internal and external training events. Formal internal CPD sessions are held for all employees with individuals keeping records of their CPD based on their professional requirements.
- The following information about qualifications and experience of employees available for audit work demonstrates the experience and qualification mix.

#### ***Experience 2022/23***

<b>Auditing Experience</b>	<b>No</b>	<b>%</b>	<b>Public Sector Auditing</b>	<b>%</b>
Up to 1 Year	1	6.7	1	6.7
1 to 5 Years	1	6.7	1	6.7
5 to 10 Years	1	6.7	1	6.7
Over 10 Years	12	80	12	80
<b>Total Employees</b>	<b>15</b>	<b>100</b>	<b>15</b>	<b>100</b>



## Qualifications

<b>Accountants (CCAB)</b>	<b>4</b>
<b>Institute of Internal Auditors</b>	<b>2</b>
<b>Institute of Internal Auditors – Training</b>	<b>1</b>
<b>Certified Information System Auditor</b>	<b>1</b>
<b>Association of Accounting Technicians</b>	<b>6</b>
<b>Association of Accounting Technicians - Training</b>	<b>1</b>
<b>Total</b>	<b>15</b>

12. The level of experience of audit employees was increased in year with skills level available remaining high based on the substantial number of employees with over 10 years' experience and competencies in specific areas.

## Conformance with UK Public Sector Internal Audit Standards (PSIAS)

13. Internal Audit has completed a self-assessment against the key elements of the Public Sector Internal Audit Standards (PSIAS) and CIPFA Local Government Application Note during 2022/23 which demonstrated that the service was conforming with the requirements.
14. It is a requirement for the service to be externally assessed once every five years. The last external assessment, carried out by the Chartered Institute of Public and Finance and Accountancy (CIPFA), in February 2022, concluded that 'Durham County Council's Internal Audit Service's self-assessment is accurate and as such we conclude that they FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note'.
15. The service must be externally assessed once every five years, with the next external review being due in the Internal Audit Year 2026/27.
16. All employees comply with ethics requirements (as described in PSIAS) in relation to the professional role of an auditor. All employees provided an annual declaration of interests for consideration to enable management to ensure that there was sufficient information to address any potential conflicts of interest which arise during audit activities. Employees are obliged to raise any conflicts or issues with management during the year. Records are maintained for this.
17. Quality of audit work was actively managed in year and the achievement of quality standards enabled the Chief Internal Auditor and Corporate Fraud Manager to confirm work has been completed in conformance with PSIAS. Individual audits had agreed and clear scope; activity was reviewed and assessed for its effectiveness and quality during and after completion of work; and customer feedback was received from post audit questionnaires.
18. Liaison with the External Auditor in year was productive and the two services continue to share information and to use this to inform risk assessments and to direct audit activity.

## Ensuring the Effective Prioritisation of Internal Audit Work

19. Prioritisation of the work of the Service is achieved by the development and delivery of an annual risk based audit plan. This describes the assurance plans for the Service and includes capacity for flexibility to adjust to changing circumstances and for demand led and urgent work if appropriate.
20. The plan is based on a mix of different types of audit and work to ensure that assurance over the systems of governance, risk management and internal control is obtained from a number of different directions and sources.
21. The Service's methodology for establishing audit priorities is aligned with governance and risk management systems. Audit plans are developed through an assessment of risk and assurance needs.
22. It is considered that the 2022/23 Internal Audit Plan represented a reasonable view of critical areas for audit review and assurance needs when it was constructed and agreed with Senior Management and the Audit and Risk Committee. It was based on reasonable estimates of available resources and when also taking into account work that was completed further to the onset of the coronavirus pandemic.
23. The Internal Audit Plan for 2023/24 was presented to the Audit and Finance Committee at its meeting on 6 April 2023 and the Service Leadership Team at its meeting on 15 February 2023.

## Performance Measures

24. Performance Management of the Service and for individual auditors is focused on deployment of auditor time to best effect. This has three main elements related to how much time is spent auditing, completion of audits within set timescales and effectiveness of time deployed. The key deliverable for the Service is the completion of the Internal Audit Plan within the year.
25. Performance and progress are monitored through Key Performance Indicators (KPIs). These are agreed with the Service Leadership Team and Audit and Risk Committee as part of the Internal Audit Charter.
26. The key performance measures for the Service over the last 12 months are:

KPI	Measure of Assessment	Target	Actual as at 31 March 2022
<b>Planned audits completed</b>	% of planned assurance work from original plan complete to draft report stage	90% (Quarterly)	78% (14 out of 18 reviews completed)
<b>Timeliness of Draft Reports</b>	% of draft reports issued within 30 Calendar days of end of fieldwork/closure	90% (Quarterly)	100% (11 reports issued)
<b>Timeliness of Final Reports</b>	% of final reports issued within 14 Calendar days of receipt of management response	95% (Quarterly)	100% (11 reports issued)

<b>Recommendations agreed</b>	% of Recommendations made compared with recommendations accepted	95% (Quarterly)	100% (47 accepted out of 47 made)
<b>Post Audit Customer Surveys</b>	% of customers scoring at least 3 out of 5	100% (Quarterly)	100% (5 out of 11 returned) Overall average score 4.5
<b>Customers providing feedback</b>	% of customers returning satisfaction returns	70% (Quarterly)	45.5% (5 returned from 11 surveys issued in 2022/23)

27. The main performance indicator shows how many planned assurance reviews have been completed against a target of 90% within the audit year. With four reviews in progress, the service has delivered 78% of the Internal Audit plan. Work undertaken in year is considered to be sufficient to enable an overall opinion to be provided when taken in conjunction with work undertaken previously from the Strategic Plan.
28. For customer satisfaction there has been positive feedback on a number of specific jobs and this is reflected in the results from customer satisfaction questionnaires. The Service carried out a programme of follow up in respect of questionnaires with the aim of maximising the number returned.
29. The issuing of draft reports is an assessment of the timeliness of the audit activity from the completion of a piece of work to the issuing of a draft report for consideration and response.
30. No concerns have been raised in relation to the application of professional standards for audit work and there have been no formal complaints.

### **Implementation of Recommendations**

31. The process for monitoring implementation of recommendations continued to build on improvements from previous years and there are good levels of engagement across the Authority. Working closely with managers allowed for greater understanding of the challenges faced and in ensuring practical recommendations were made and alternative solutions considered in order to address risk.
32. The Service maintained regular contact with the Deputy Chief Executive throughout the year and provided key reports and information to the Audit and Finance Committee, which with regular updates from the Service has the opportunity to challenge progress and outcomes. This includes asking senior managers to provide updates as necessary where there is considered to be a significant risk or concern. This process has provided an effective method for obtaining assurance during 2022/23.

### **Audit Committee**

33. The system of Internal Audit includes the role of the Audit and Finance Committee and in particular its role in the receipt and evaluation of audit reports, both in terms of assurance opinions and in the ensuring that appropriate arrangements are in place for

the delivery of an effective service. The arrangements for the Audit and Finance Committee were unchanged in 2022/23.

## **Summary and key priorities**

34. The Service continues to build on its strengths and enhance its reputation. Service delivery remains a key priority in support of the Authority's priorities and to help identify and address any risks to the delivery of objectives. The Service delivered a comprehensive plan for the year and it is considered that the Service has a sound base for carrying out its audit activities and meeting its objectives to provide audit assurance and advisory support.

## **Recommendation**

35. Members are asked to consider the findings and conclusions of the 2022/23 review of the effectiveness of the system of Internal Audit contained within this report.

Contact: Nicola Cooke	Tel: 03000 269665
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**Safest People, Safest Places**

## **Audit and Finance Committee**

**27 September 2023**

### **Fraud and Corruption Annual Report 2022/23**

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#### **Report of the Head of Internal Audit**

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##### **Purpose of the Report**

1. The purpose of this report is to advise and provide assurances to Members of the Audit and Finance Committee of the results of work being undertaken within the Authority in seeking to identify, control and prevent fraud and corruption.

##### **Background**

2. Public accountability, a reputation for honesty and the exposure of misconduct are key features of the approach taken in combating potential fraud and corruption from within and outside the Authority.
3. The Fraud Act 2006 describes the following three methods of committing fraud;
  - Fraud by misrepresentation
  - Fraud by failing to disclose information
  - Fraud by abuse of position
4. Corruption is defined as “the offering, giving, soliciting or acceptance of any inducement or reward which may improperly influence the action of any person”.

##### **The Authority’s Responsibilities in relation to Fraud and Corruption**

5. In administering its responsibilities, the Authority has in place a framework of written procedures and controls to help ensure the highest standards of conduct are practised.
6. Central to these are detailed rules for decision making, and rules of procedure, including; a Constitution, Standing Orders, Contract Procedure Rules, Financial Regulations, Member, Officer Codes of Conduct, and a Whistleblowing Policy (Confidential Reporting Code).

7. The Authority has also approved a number of other policies in relation to the prevention, detection and investigation of fraud as follows:
  - Anti-Fraud, Anti-Bribery & Anti-Corruption Policy
  - Regulation of Investigatory Powers Act (RIPA) 2000 Policy
  - IT Security Policy
  - Disciplinary Procedures
8. Internal Audit has a key role in providing assurance that the Authority's procedures and policies are adhered to and in helping to detect fraud through its testing. All Internal Audit staff are aware to the risk of fraud and corruption and help prevent this through evaluating the effectiveness of internal controls and recommending improvements to management to help manage risk.
9. It is the responsibility of the Section 151 Officer to develop, maintain and review the Authority's Anti-Fraud, Anti-Bribery & Anti-Corruption Policy. Senior Officers are responsible for promoting the Policy within their Department and ensuring that all suspected irregularities are reported to the Head of Internal Audit.
10. It is the responsibility of Senior Officers to establish sound systems of internal control in its arrangements for planning, appraising, authorising and controlling operations within their areas. In doing so Officers must be aware of the risk of fraud and corruption within their areas of operation and should seek advice from Internal Audit as considered necessary. Where possible this advice should be sought during the development of systems so that Internal Audit can be pro-active in helping management establish appropriate controls pre-implementation, thereby increasing their effectiveness and minimising risk.
11. Publication of related policies on the Authority's website and intranet is a further way in which the Authority seeks to be pro-active in this area. Policies are also incorporated into Employee Handbooks and are identified during officer and member induction.
12. Internal Audit will look to advise / work with the Section 151 Officer in determining the relevant course of action to be pursued, in the event of fraud or corruption including, where it is considered appropriate, to involve the Durham Constabulary. To help manage this process the Council has a dedicated Counter Fraud Team within the Internal Audit Service who hold appropriate professional qualifications in Fraud Investigation.

### **National Fraud Initiative NFI**

13. Internal Audit also supports management pro-actively in the prevention and identification of potential irregularity through membership of the National Anti-Fraud Network (NAFN) and directly through participation within the National Fraud Initiative (NFI).
14. The NFI is the Cabinet Office's data matching exercise that runs every two years. Data from Authority systems was submitted in October 2022 and was matched across systems and against data submitted by other organisations to identify potential fraud and / or error.

15. The exercise focused upon payments made in relation to pensions, payroll and creditors and generated various reports containing a total of 143 data matches for further investigation.
16. All 143 data matches were reviewed and investigated as appropriate with no instances of fraudulent or irregular activity, being perpetrated by Service employees, pensioners or their representatives identified.

### **Fraud and Corruption Survey**

17. Internal Audit adapted the former Audit Commission's fraud and corruption survey attached as Appendix 1 for use as a reference point against which fraud can be analysed and categorised. Through discussion with the Deputy Chief Executive no incidences of fraud were identified as occurring during 2022/23.

### **Recommendation**

18. Members are requested to note the progress made and assurances provided in relation to the Authority's anti-fraud and anti-corruption arrangements.

Nicola Cooke, Audit Manager, 03000 269665

### Fraud cases

#### Procurement, Insurance and Economic/ third sector fraud

Note: all cases in this survey where management authorised action has been taken, such as an investigation or enquires made, and as a result an officer with management authorisation has determined that on the balance of probabilities a fraud or act of corruption has occurred. As such, cases do not require a sanction or prosecution to be determined as fraudulent.

**If you have cases but do not record the number and/or the value please answer 'yes' and record 'NR' in Number of cases and/or Value (£'s)**

#### Procurement fraud

Note: this is any fraud linked to the false procurement of goods and services for the organisation either by internal or external persons or companies including but not limited to: violation of procedures; manipulation of accounts: records or methods of payment failure to supply; failure to supply to contractual standard.

Did you have any cases of procurement fraud? **No**

#### Fraudulent insurance claims

Note: this is any insurance claim against your organisation or your organisation's insurers that proves to be false.

Did you have any cases of fraudulent insurance claims? **No**

#### Economic and third sector support fraud

Note: this is any fraud that involves the false payment of grants, loans or any financial support to any private individual or company, charity, or non-governmental organisation including, but not limited to: grants paid to landlords for property regeneration; donations to local sports clubs; loans or grants made to a charity.

Did you have any cases of economic and third sector support fraud? **No**

#### Debt, Pensions and Investment fraud

If you have cases but do not record the number and/or the value please answer 'yes' and record 'NR' in Number of cases and/or Value (£'s)

#### Debt Fraud

Note: This is any fraud linked to the avoidance of a debt to the organisation including, but not limited to false declarations; false instruments of payment or documentation,

Did you have any cases of debt fraud? **No**



## **Pension Fraud**

Note: this is any fraud relating to pension payments including, but not limited to: failure to declare changes of circumstances; false documentation; or continued payment acceptance after the death of the pensioner.

Did you have any cases of pensions fraud? **No**

## **Investment fraud**

Note: this is any fraud relating to investments including, but not limited to: the fraudulent misappropriation of assets; or loss through breach of procedures

Did you have any cases of investment fraud? **No**

## **Payroll and Expenses fraud, Abuse of position and Other fraud**

### **Payroll and employee contract fulfilment fraud**

Note: this includes, but is not limited to: the creation of non-existent employees; unauthorised incremental increases; the redirection or manipulation of payments; false sick claims; not working required hours; or not undertaking required duties.

Did you have any cases of payroll and contract fulfilment fraud? **No**

Number of cases

Value (£'s)

In the Payroll and employee contact fulfilment detected fraud cases you have reported is there any evidence to suggest they have resulted from organised crime?

### **Expenses fraud**

Note: this includes, but is not limited to: false declarations of mileage allowances; breaches of authorisation and payment procedures.

Did you have any cases of employee expenses fraud? **No**

Did you have any cases of councillor expenses fraud? **No**

### **Abuse of position**

Note: this could include frauds not reported elsewhere (the financial gain could be for the fraudster or other) including, but not limited to: the misappropriation or distribution of funds by someone taking advantage of their position such as payments officers, bursars or finance managers; or fraudulently securing a job for a friend or relative.

Did you have any cases of abuse of position for financial gain? **No**

Did you have any cases of manipulation of financial or non-financial data? **No**

Note: this includes, but is not limited to: the falsifying of statistics to ensure performance targets are met; or the adjustment of accounts to remain within set financial limits for the benefit of an individual or the organisation.

## **Other fraud**

Did you have any other types of fraud? **No**

## **Recruitment fraud and fraud reporting**

**If you have cases but do not record the number and/or the value please answer 'yes' and record 'NR' in Number of cases and/or Value (£'s)**

### **Recruitment Fraud**

Note: this could involve any applications, including attempts, to gain employment or subsequently where any of the details prove to be false, including but not limited to: false identity, immigration (no right to work or reside); false qualifications; or false CVs.

Did you have any cases of recruitment fraud? **No**

Not included in figures elsewhere in the survey, how many incidents of corruption did you have involving a councillor? **None**

Not included in figures elsewhere in the survey, how many incidents of corruption did you have involving an employee? **None**

## **Prosecutions**

### **Fraud and Corruption Prosecutions**

**If you have cases but do not record the number and/or the value please answer 'yes' and record 'NR' in Number of cases and/or Value (£'s)**

#### **Fraud**

Did you prosecute any cases of fraud? **No**

Did you have any fraud prosecutions that resulted in a guilty outcome? **No**

#### **Corruption prosecutions**

Did you prosecute any cases of corruption? **No**

Did you have any corruption prosecutions that resulted in a guilty outcome? **No**

County Durham and Darlington  
Fire and Rescue Authority



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## **Audit and Finance Committee**

**27 September 2023**

### **Internal Audit Progress Report 2022/23**

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#### **Report of the Head of Internal Audit**

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##### **Purpose of the Report**

1. The purpose of this report is to advise Members on work undertaken by Internal Audit between 01 April 2021 and 31 March 2023.
2. The report aims to:
  - Provide a high level of assurance, or otherwise, on internal controls operated across the Authority that have been subject to audit
  - Advise the Committee of significant issues where controls need to improve to effectively manage risks
  - Advise the Committee of any amendments to the approved Internal Audit plan
  - Advise the Committee of changes to audit processes and terminology
  - Track progress on the response to internal audit reports and the implementation of agreed internal audit recommendations
  - Provide an update on our performance indicators comparing actual performance against planned.
3. The appendices attached to this report are summarised below. Those marked with an asterisk are not for publication (Exempt information under Part 3 of Schedule 12a to the Local Government Act 1972, paragraph 3).

Appendix 1 Progress against the Internal Audit Plan  
Appendix 2 Internal Audit Performance Indicators  
Appendix 3\* Overdue Actions

##### **Progress against planned work**

4. A summary of the agreed plan (which covers the 12-month period 01 April 2022 to 31 March 2023) showing the status of each audit as at 31 March 2023 is attached at Appendix 1.

5. The Appendix shows that 19 reviews including seven that were carried forward from 2021/22 were scheduled to be completed in 2022/23, of these:
  - Thirteen assurance reviews are complete;
  - Four assurance reviews are in progress;
  - One assurance review has been cancelled; and
  - One Counter Fraud review is complete
6. The assurance level, if applicable, for each piece of work where a final report has been issued is shown in Appendix 1.

### Amendments to Annual Audit Plan

7. During the period, the following amendments were made to the plan as agreed with the Deputy Chief Executive

Audit	Reason
Data Quality	Deferred to 23/24 to allow for the publication on the HMICFRS Inspection report
MTPF	This review has been cancelled

### Outstanding management response to draft reports

8. No management responses to outstanding Draft Reports are overdue.

### Response to Audit Recommendations

9. To provide independent assurance that adequate progress is made in the implementation of agreed recommendations at the appropriate service operational level, all high and medium recommendations contained within actions plans within individual audit reports are followed up by internal audit. In addition, listings of all recommendations outstanding at the end of each month are produced and issued to a nominated representative to assist the Service in its own internal monitoring processes.
10. To allow progress made at the operational level to be tracked and monitored, the numbers of all recommendations made arising from each audit complete, and evidenced as implemented, are shown in Appendix 1. It should be noted that Internal Audit will not follow up Best Practice matters raised.
11. A summary of outstanding audit recommendations i.e. those not implemented within original agreed or revised target dates, as evidenced through Internal Audit follow up, for period ended 31 March 2023 is given in the table below:

Risk	Actions	Total	Actions	Overdue	Target	Overdue
------	---------	-------	---------	---------	--------	---------

Category	Raised	Due	Implemented	Original	Revised	Revised
<b>2020/21</b>						
High	8	8	8	0	0	0
Medium	11	11	10	1	1	1
<b>Total</b>	<b>19</b>	<b>19</b>	<b>18</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>2021/22</b>						
High	8	8	8	0	0	0
Medium	25	25	25	0	0	0
Total	33	33	33	0	0	0
<b>2022/23</b>						
High	8	8	8	0	0	0
Medium	23	15	14	1	1	0
<b>Total</b>	<b>33</b>	<b>23</b>	<b>15</b>	<b>1</b>	<b>1</b>	<b>0</b>

12. Two medium priority recommendations are overdue against original target implementation dates. Details of the nine recommendations are shown in Appendix 3 as a Part B Agenda Item.

### Reports issued with a Limited Assurance Opinion

13. No reports have been issued that resulted in a Limited Assurance Opinion.

### Corporate Governance

14. The Annual Governance Statement is due to be approved at the November meeting of the Committee. Once approved the Corporate Governance action plan will be updated as a means of informing the Authority's Annual Governance Statement 2022/23.

### Counter Fraud

15. The Audit and Finance Committee considered the Annual Fraud and Corruption report at its meeting of 28 September 2022. Internal Audit will continue to work with the Authority through the year in ensuring the robustness of arrangements in place.

### Performance Indicators

16. A summary of agreed target performance indicators is given in Appendix 2.

### Recommendation

17. Members are **asked to**
- **consider** the outturn position in delivering the internal audit plan for 2021/22 together with that made by managers in responding to the work of internal audit to gain assurance on the adequacy and effectiveness of the internal control environment.

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**Nicola Cooke, Audit Manager, Tel: 03000 269665**

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## Appendix 1: Summary of the status of work undertaken and recommendations made and implemented

INTERNAL AUDIT SERVICES							High	High	Medium	Medium	Best Practice
Reviews – 2022-23	Work Schedule	Planned Days	Revised Days	Actual Days	Status	Assurance Opinion	M	I	M	I	M
<b>Planned Work</b>											
Assurance Management – AGS	Q1-4	1	1	0.5	Complete	N/A	8	8	0	0	0
Key Financial Systems (Creditors, Debtors, Income)	Q4	10	10	11.5	Final Report	Substantial	0	0	0	0	0
Payroll	Q4	8	8	1	In Progress						
Treasury Management	Q4	4	4	4.8	Final Report	Substantial	0	0	0	0	0
Medium Term Financial Plan	Q2	5	0	0	Cancelled						
Performance Data Quality	Q2	0	0	0	Cancelled						
Strategic Risk Management	Q1-4	1	1	0.5	In Progress						
Ethics	Q3	5	5	9.7	Final Report	Substantial	0	0	1	1	2
Network Management	Q4	5	5	5.9	Final Report	Moderate	0	0	5	0	1
Device Build Process	Q4	5	5	3.5	In Progress						
ICT Business Continuity	Q4	5	5	3.6	In Progress						
<b>Unplanned Work</b>											
<b>Counter Fraud</b>	Q1-4	1	1	1	Complete	N/A					
NFI	Q3-4	4	4	3	Complete	N/A					
<b>Audit Planning and Reporting</b>											
Service Support	Q1-4	12	12	12.8	Complete	N/A					
<b>Brought Forward Reviews – 2021-22</b>											
Key Financial Systems	Q1	2	2	4.2	Final Report	Substantial	0	0	0	0	1
Payroll	Q1	5	5	9.3	Final Report	Substantial	0	0	0	0	1
Data Quality – Operational Risk Register	Q1	0.5	0.5	2	Final Report	Substantial	0	0	1	1	2
Physical Security	Q4	1	1	2	Final Report	Moderate	0	0	4	0	2
Business Continuity Planning	Q1	1	1	1.1	Final Report	Moderate	0	0	5	5	3
Review of HR related GDPR Arrangements	Q1	4	4	4.4	Final Report	Moderate	0	0	2	0	3
Review of GDPR Management and Principles in IT	Q3	4	4	5.3	Final Report	Moderate	0	0	5	0	1
<b>TOTAL</b>		<b>83.5</b>	<b>78.5</b>	<b>86.1</b>			<b>8</b>	<b>8</b>	<b>23</b>	<b>7</b>	<b>16</b>

## Appendix 2 Performance Indicators for 2022/23

<b>Efficiency</b>	<b>Objective: To provide maximum assurance to inform the annual audit opinion</b>		
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target &amp; (Frequency of Measurement)</b>	<b>Actual</b>
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage as at 31 March 2023	90% (Quarterly)	78% (14 out of 18 reviews completed)
Timeliness of Draft Reports	% of draft reports issued within 30 calendar days of end of fieldwork/closure interview Average time taken is also reported for information	90% (Quarterly)	100% (11 reports issued)
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response Average time taken is also to be reported for information	95% (Quarterly)	100% (11 reports issued)
Terms of Reference	% of TOR's agreed with key contact in advance of fieldwork commencing	95% (Quarterly)	100% (15 TOR's issued)
<b>Quality</b>	<b>Objective: To ensure that the service is effective and adding value</b>		
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target &amp; (Frequency of Measurement)</b>	
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Quarterly)	100% (47 accepted out of 47 made)
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service good or above (3 out of 5) where 1 is poor and 5 is very good Average score is also reported for information	100% (Quarterly)	100% (5 out of 11 returned) Overall average score 4.5
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)	45.5% (5 returned from 11 surveys issued in 2022/23)

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**Audit and Finance Committee**

**27 September 2023**

**Corporate Risk Register – Position at 31 August 2023**

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## **Report of Deputy Chief Executive**

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### **Purpose of Report**

1. To provide details of the Corporate Risk Register at 31 August 2023.

### **Background**

2. The Service actively manages risks at all levels of the organisation. The Authority's Risk Management Strategy sets out the framework for the reporting of risks and mitigating actions to members of the Fire Authority. This process also enables members to consider any risks that they have identified and their impact on the Authority.

### **Corporate Risk Register**

3. The corporate risk register is a dynamic document that provides a summary of the high-level risks facing the Service. Officers review the risks facing the Service on an on-going basis as part of the overall control framework within individual sections. The Service Management Team and the Service Leadership Team also scrutinise risks monthly to ensure a corporate and cross cutting approach.
4. There are currently nine risks on the corporate risk register. The register shows the original risk that has been identified, the gross risk score and the residual risk score after mitigating actions. A copy of the corporate risk register is attached at Appendix 1.

### **Recommendations**

5. Members are requested to **note** the report.

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<u>Risk Reference</u>	<u>Risk Description</u>	<u>Risk Score</u>	<u>Residual Score</u>	<u>Status</u>	<u>Change to Risk Score</u>
ER218	Heightened terrorist threat in County Durham and Darlington increasing the risk to CDDFRS staff and communities. This also includes the organisation not being able to provide critical services to the community due to a major disruption.	<p style="text-align: center;"><b>12</b> L=3 I=4</p>	<p style="text-align: center;"><b>9</b> L=3 I=3</p>	<p>The score reflects the latest intelligence.</p> <p>The Chief Fire Officer and SLT members are embedded across the LRF. The lead National Incident Liaison Officer (NILO) provides updates to the Service on national counter terrorism issues. the Service is also involved in the counter terrorism strategy (CONTEST) and production of the counter terrorism local profile. Marauding terrorism attack (MTA) refresher training delivered each year for revalidation of competence.</p> <p>A Multi-agency tactical exercise took place on 1st Dec 2021 to test joint operational planning (JOPS2) and the Joint Emergency services Interoperability Programme (JESIP). A full debrief took place Dec 2021 and learning points will be actioned as appropriate.</p>	<p style="text-align: center;"><b>NO CHANGE</b></p>

<u>Risk Reference</u>	<u>Risk Description</u>	<u>Risk Score</u>	<u>Residual Score</u>	<u>Status</u>	<u>Change to Risk Score</u>
ER224	Failure to respond effectively and provide services due to Industrial Action.	15 L=3 I=5	8 L=2 I=4	<p>No industrial action has been notified however the position regarding firefighters pay could escalate to industrial action in 2324 if an acceptable offer is not made. Future national uncertainties could also impact on this risk such as governance changes.</p> <p>The residual score reflects the fact that we have effective management of industrial relations and a communications strategy to all stakeholders together with a business continuity plan relating to industrial action.</p>	<b>REDUCED</b>

<u>Risk Reference</u>	<u>Risk Description</u>	<u>Risk Score</u>	<u>Residual Score</u>	<u>Status</u>	<u>Change to Risk Score</u>
RISK 39	Lack of Qualified emergency fire appliance drivers affecting availability of appliances.	<b>20</b> <b>L=5</b> <b>I=4</b>	<b>15</b> <b>L=5</b> <b>I=3</b>	The reintroduction of Crew Managers driving has mitigated this risk. Additional refresher EFAD (Emergency Fire Appliance Driving) training has also been delivered to increase resilience.	<b>NEW RISK</b>
FIN152	Failure to achieve the savings via the service transformation options outlined in the CRMP consultation leading to a greater budget deficit.	<b>20</b> <b>L=4</b> <b>I=5</b>	<b>12</b> <b>L=3</b> <b>I=4</b>	<p>To arrive at a balanced budget for 23/24 it was necessary to draw £0.571M from reserves which increase to £0.821M following the settlement of the firefighters pay award. The CRMP consultation included a proposal to ride with a crew of four on all fire appliances which was agreed and implemented on 01 July 2023. This reduces the in-year draw on reserves to £0.250M. The use of reserves to balance the budget is not sustainable on an on-going basis. If there is no increase in the level of government funding or the council tax referendum limit going forward, alternative methods of service delivery will need to be considered and agreed to balance the budget going forward.</p> <p>Several savings options have been developed to deal with any future shortfall in funding. These options have been discussed in detail with members at the Strategic Planning Days and further savings options are also being examined to assist in balancing the budget.</p>	<b>NO CHANGE</b>

<u>Risk Reference</u>	<u>Risk Description</u>	<u>Risk Score</u>	<u>Residual Score</u>	<u>Status</u>	<u>Change to Risk Score</u>
FIN153	The actual position relating to pay awards, inflation and grant cuts etc, turns out to be different to the assumptions underpinning the MTFP leading to a greater budget deficit.	<b>20</b> L=4 I=5	<b>16</b> L=4 I=4	<p>The MTFP assumptions are monitored and updated on an on-going basis.</p> <p>The MTFP is based upon increases in pay awards of 5% in 2023/24, 3% in 2024/24 and 2% thereafter. The MTFP deficit position could change dramatically if pay awards are agreed above this level.</p> <p>Whilst it is impossible to predict what might happen in the future, alternative MTFP scenarios have been modelled to illustrate the impact of changes to the assumptions.</p> <p>The situation regarding pay awards and inflation is monitored closely and any impact on the budget in the current year would normally be managed using contingencies and/or reserves. Members will be kept informed if further corrective action is required.</p>	<b>NO CHANGE</b>
<u>Risk Reference</u>	<u>Risk Description</u>	<u>Risk Score</u>	<u>Residual Score</u>	<u>Status</u>	<u>Change to Risk Score</u>

FIN 225	Insufficient government funding to meet capital programme requirements which could impact on the revenue budget leading to an increased MTFP deficit.	<b>12</b> <b>L=3</b> <b>I=4</b>	<b>9</b> <b>L=3</b> <b>I=3</b>	The Authority no longer receives government funding for capital expenditure which was previously £1.3M per annum. Provision is made in the revenue budget going forward to meet the impact of borrowing and/or direct funding. Recent increases in interest rates will add further pressure on the revenue budget from increased debt repayment costs.	<b>NO CHANGE</b>
FIN 08	Changes to public sector pension schemes could lead to higher employer and employee contributions; increased turnover of staff; difficulty in recruiting and retaining high calibre staff and a reduction in staff morale and productivity.	<b>20</b> <b>L=4</b> <b>I=5</b>	<b>16</b> <b>L=4</b> <b>I=4</b>	<p>The proposals to address age discrimination in the Firefighters pension schemes resulting from the McCloud Sargeant case could lead to a significant increase in the level of employers pension contributions and a range of staff retiring and accessing their pension earlier than anticipated. At the 16 February 2022 CFA meeting, members agreed to pause the processing of immediate detriment cases until the full extent of liabilities falling on the Authority are known. There is a risk that the Authority could be liable for the tax charges relating to individuals who have previously retired.</p> <p>The recruitment strategy includes options to bring in replacement staff quickly, if necessary, in order to maintain operational response.</p>	<b>NO CHANGE</b>
<b><u>Risk Reference</u></b>	<b><u>Risk Description</u></b>	<b><u>Risk Score</u></b>	<b><u>Residual Score</u></b>	<b><u>Status</u></b>	<b><u>Change to Risk Score</u></b>

SLT1/21	White Paper on fire services reform: Originally due to be published for consultation summer of 2021 but has been subject to delay. The implications of this document are not fully known but could involve significant change within the FRS including CDDFRS.	<b>16</b> <b>L=4</b> <b>I=4</b>	<b>12</b> <b>L=3</b> <b>I=4</b>	<p>The CFO is working on a national level with the NFCC and the SLT is working locally with the CFA and PCVC which will help to mitigate the potential impact of this risk. The White Paper has still not been published however we believe that it is now unlikely to mandate changes to governance arrangements.</p> <p>Close monitoring over the coming months will help the service understand more about the White Paper and potential impact which will allow for appropriate mitigating strategies and communications to be prepared in advance.</p>	<b>NO CHANGE</b>
ER 222	Significant number of empty and derelict buildings within the Authority area	<b>20</b> <b>L=4</b> <b>I=5</b>	<b>15</b> <b>L=3</b> <b>I=5</b>	<p>There are a significant number of empty and derelict buildings that are in poor condition and/or ineffectively secured which present a fire risk. The Service has collated a database of FRS known empty buildings to review hazards and produce Operational Risk Information (ORI) as required. The Service has representation at both the DCC and DBC Empty Building Working Groups.</p>	<b>NO CHANGE</b>





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## **Audit and Finance Committee**

**27 September 2023**

### **Short Term Investments and Long-Term Borrowing – Period to 31 March 2023 (Quarter 4)**

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#### **Report of Treasurer**

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#### **Purpose of the Report**

1. To provide an update on the performance of the Authority's short-term investments and long-term loans for the period ended 31 March 2023.

#### **Short-Term Investments**

2. In accordance with the Fire and Rescue Authority's adopted Treasury Policy Statement, the following transactions have been made with the UK Government Debt Management Office, Money Market Funds, UK clearing banks and major building societies for the financial year ended 31 March 2023.

	<b>Position as at 31 March 2023</b>
Interest Earned	£176,496.70
Average Return Earned	1.97%
Average Bank of England base rate	2.30%
Balance Invested at Quarter End	£2,689,000.00
Average Daily Balance of Investments	£8,947,078.50

3. Interest of £176,496.70 was earned up to the 31 March 2023 which significantly exceeded the budgeted amount of £8,000 for the year.

4. The short-term investments balance of £2,689,000 at the 31 March 2023 is made up as follows: -

<b>Borrower</b>	<b>Amount Invested £M</b>
Money Market Fund	
• Insight	£2.100
Lloyds	£0.589
<b>Total</b>	<b>£2.689</b>

### **Long-Term Borrowing**

5. The outstanding principal balance of £4,939,000 relating to long-term loans at the 31 March 2023 is made up as follows: -

<b>Lender</b>	<b>Amount Invested £M</b>
PWLB Lending Facility	
• Loan 324867	£1.953
• Loan 510768	£2.986
<b>Total</b>	<b>£4.939</b>

### **Recommendation**

6. Members are requested to **note** the position regarding the Authority's short-term investments and long-term borrowing.



**Safest People, Safest Places**

## **Audit and Finance Committee**

**27 September 2023**

### **Short-Term Investments and Long-Term Borrowing – Period to 30 June 2023 (Quarter 1)**

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#### **Report of Treasurer**

---

#### **Purpose of the Report**

1. To provide an update on the performance of the Authority's short-term investments and long-term loans for the period ended 30 June 2023.

#### **Short-Term Investments**

2. In accordance with the Fire and Rescue Authority's adopted Treasury Policy Statement, the following transactions have been made with the UK Government Debt Management Office, Money Market Funds, UK clearing banks and major building societies for the financial year ended 30 June 2023.

	<b>Position as at 30 June 2023</b>
Interest Earned	£49,631.03
Average Return Earned	4.32%
Average Bank of England base rate	4.43%
Balance Invested at Quarter End	£3,459,000.00
Average Daily Balance of Investments	£4,605,285.21

3. Interest of £49,631.03 has been earned up to the 30 June 2023 which is above the budgeted amount of £12,500 for the year to date.

4. The short-term investments balance of £3,459,000 at the 30 June 2023 is made up as follows: -

<b>Borrower</b>	<b>Amount Invested £M</b>
Money Market Fund	
• Insight	£3.400
Lloyds	£0.059
<b>Total</b>	<b>£3.459</b>

### **Long-Term Borrowing**

5. The outstanding principal balance of £4,925,000 relating to long-term loans at the 30 June 2023 is made up as follows: -

<b>Lender</b>	<b>Amount Invested £M</b>
PWLB Lending Facility	
• Loan 324867	£1.953
• Loan 510768	£2.972
<b>Total</b>	<b>£4.925</b>

### **Recommendation**

6. Members are requested to **note** the current position regarding the Authority's short-term investments and long-term borrowing.

County Durham and Darlington  
Fire and Rescue Authority



**Safest People, Safest Places**

**Audit and Finance Committee**

**27 September 2023**

**Medium-Term Financial Plan Update**

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## **Report of Deputy Chief Executive**

---

### **Purpose of Report**

1. The purpose of this report is to provide an update on the medium-term financial plan (MTFP) position based upon the latest available information.

### **Background**

2. The current MTFP was approved at the meeting of the Authority on 15 February 2023 and members were informed at that time that to set a balanced budget for the current year (2023/24) it would be necessary to draw £571,000 from reserves. The required draw from reserves increased by a further £250,000 to £821,000 following the announcement of the firefighters pay award which was above the level included in the 2023/24 budget.
3. To assist in balancing the budget in future years, members agreed to consult the public via the Community Risk Management Plan (CRMP) on the option of riding with a crew of 4 on all fire appliances. Consultation took place between 17 February and 11 May 2023 and 68% of the respondents agreed with the proposal. This option would remove 16 posts from the operational establishment saving £780,000 in a full year.
4. The change to riding with 4 was implemented from 01 July 2023 saving £571,000 in staffing costs in the current financial year.

## Approved MTFP

5. The Authority's approved MTFP is set out in Table 1 below:

**Table 1: Medium Term Financial Plan (approved February 2023)**

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
<b>Net Expenditure</b>	<b>32.672</b>	<b>34.493</b>	<b>35.657</b>	<b>36.686</b>
Contribution from Reserves	-0.571	0	0	0
<b>Revised Net Expenditure</b>	<b>32.101</b>	<b>34.493</b>	<b>35.657</b>	<b>36.686</b>
Total Government Funding	9.897	10.094	10.296	10.502
Local Non-Domestic Rates	1.459	1.459	1.459	1.459
Council Tax	20.700	21.516	22.145	22.794
Services Grant	0.288	0.282	0.288	0.294
Deficit on Collection Fund	(0.243)	0	0	0
<b>Total Funding</b>	<b>32.101</b>	<b>33.351</b>	<b>34.188</b>	<b>35.049</b>
<b>Surplus/ (Deficit)</b>	<b>0</b>	<b>(1.142)</b>	<b>(1.469)</b>	<b>(1.637)</b>

6. The approved MTFP was based on several assumptions which are set out in Table 2 below:

**Table 2: Approved MTFP Assumptions**

	2023/24	2024/25	2025/26	2026/27
<b>Income Assumptions</b>				
Council Tax Base	+1.30%	+0.90%	+0.90%	+0.90%
Council Tax Level	+4.6%	+2.99%	+1.99%	+1.99%
Settlement Funding Assessment	+4.16%	+2.00%	+2.00%	+2.00%
<b>Expenditure Assumptions</b>				
Pay Awards	+5.00%	+3.00%	+2.00%	+2.00%
Inflation	+5.00%	+2.00%	+2.00%	+2.00%

7. Based on the above assumptions, the potential shortfall in funding over the period covered by the approved MTFP was £1.637m.

## Review of the Current MTFP

8. The approved budget and MTFP was based on firefighter pay awards of 6% from July 2022 and 5% from July 2023. The actual pay award was announced after approval of the budget and MTFP and resulted in a further 1% increase in firefighter pay from July

2022 to 7%. This increased the estimated drawing from reserves in 2023/24 and the shortfall in future years by a further £250,000.

9. To assist in balancing the budget a full review of all budget headings has been undertaken to identify savings and correct any shortfalls in current budgets. The review identified annual net savings of £309,000 which have been removed from the MTFP from 2024/25.
10. There has been a significant increase in interest on short-term investments which is forecast to exceed the budget by £250,000 in 2023/24. As the position regarding future interest rates is particularly difficult to forecast an increase of £100,000 has been built into the MTFP for 2024/25 and 2025/26.
11. The move to riding with a crew of 4 on all fire appliances (effective from 01 July 2023) will save £571,000 in 2023/24 and £780,000 in a full year, further reducing the MTFP deficit.
12. There are many significant factors affecting the MTFP which are difficult to quantify including: the level of government funding and council tax limits beyond 2023/24, the level of future pay awards, the level of inflation and the level of employer's pension contributions. The revised MTFP is therefore based on assumptions which could have a significant impact on the Authority's overall financial position should the actual position turn out to be different.

### Revised MTFP 2023/24 to 2026/27

13. The revised MTFP in Table 3 below is based on the assumptions outlined in Table 2 and the changes outlined in paragraphs 8 to 11:

**Table 3: Revised Medium Term Financial Plan 2023/24 to 2026/27**

	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Net Expenditure</b>	<b>32.672</b>	<b>34.493</b>	<b>35.657</b>	<b>36.686</b>
Riding with a crew of 4	(0.571)	(0.780)	(0.780)	(0.780)
Interest on Investments	(0.250)	(0.100)	(0.100)	(0.100)
Net Savings Identified	0	(0.309)	(0.309)	(0.309)
Additional 1 % pay award	0.250	0.250	0.250	0.250
Contribution from Reserves	0	0	0	0
<b>Revised Net Expenditure</b>	<b>32,101</b>	<b>33.554</b>	<b>34.718</b>	<b>35.747</b>
Total Government Funding	9.897	10.094	10.296	10.502
Local Non-Domestic Rates	1.459	1.459	1.459	1.459
Council Tax	20.700	21.516	22.145	22.794
Services Grant	0.288	0.282	0.288	0.294
Deficit on Collection Fund	(0.243)	0	0	0
<b>Total Funding</b>	<b>32.101</b>	<b>33.351</b>	<b>34.188</b>	<b>35.049</b>
<b>Surplus/ (Deficit)</b>	<b>0</b>	<b>(0.203)</b>	<b>(0.530)</b>	<b>(0.698)</b>

14. The approved budget for 2023/24 included an estimated drawing of £0.571M from reserves. Following the implementation of riding with 4 the drawing from reserves will not be required.
15. The overall shortfall over the MTFP period has been reduced from £1.637M to £0.698M.

### Impact of Changes to Assumptions on the MTFP

16. Several assumptions have been made in relation to settlement funding, council tax increases, pay, prices and pension costs across the MTFP period and there is a risk that the actual position could turn out to be different.
17. Table 4 below sets out the potential impact of changes to the main assumptions on the MTFP position:

**Table 4: Impact of Changes to Expenditure and Income Assumptions**

Impact of Changes to Expenditure Assumptions	Annual Impact £m
1% change in level of pay award	£0.250
1% change in level of Inflation	£0.075
1% change in level of council tax	£0.198
1% change in level of settlement funding	£0.112

### Alternative MTFP Scenarios

18. There is a great deal of uncertainty surrounding the level of inflation, pay awards and funding going forward. Whilst it is impossible to predict what might happen in the future, five alternative scenarios have been modelled for illustrative purposes:

- **Model 1 Increased Pay Awards**

The MTFP includes increases in pay awards of 3% in 2024/25 and 2% in 2025/26 and 2026/27. This model sets out the impact of pay awards above this level. An increase of 5.0% in 2024/25, 3.0% in 2025/26 and 2% in 2026/27 has been assumed in this model.

**Table 5 Alternative Scenario Model 1**

	2024/25	2025/26	2026/27
	£m	£m	£m
MTFP Deficit	(0.203)	(0.530)	(0.698)
Model 1 Deficit	(0.703)	(1.280)	(1.448)
<b>Increase in Deficit</b>	<b>(0.500)</b>	<b>(0.750)</b>	<b>(0.750)</b>



- Model 2 Increase in settlement funding in line with Inflation in 2024/25**  
 The MTFP includes a 4.16% increase in settlement funding in 2023/24 and 2% thereafter. This model sets out the impact of an increase in settlement funding in line with the estimated September 2023 inflation rate (estimated at 7%).

**Table 6 Alternative Scenario Model 2**

	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
MTFP Deficit	(0.203)	(0.530)	(0.698)
Model 3 Surplus / (Deficit)	0.293	(0.025)	(0.182)
<b>Reduction in Deficit</b>	<b>0.496</b>	<b>0.505</b>	<b>0.516</b>

- Model 3 A further £5 increase in Band D council tax in 2024/25**  
 The MTFP includes council tax increases of £5 (4.6%) in 2023/24, 2.99% in 2024/25, 1.99% in 2025/26 and 1.99% 2026/27. A further £5 (4.36%) increase in Band D council tax in 2024/25 has been assumed in this model.

**Table 7 Alternative Scenario Model 3**

	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
MTFP Deficit	(0.203)	(0.530)	(0.698)
Model 3 Surplus / (Deficit)	0.078	(0.244)	(0.406)
<b>Reduction in Deficit</b>	<b>0.281</b>	<b>0.286</b>	<b>0.292</b>

- Model 4 Services Grant received in 2023/24 only.**  
 Alongside the 2023/24 settlement the government announced the continuation of the one-off Services Grant that was introduced in 2022/23. The future distribution of this grant will be decided following consultation with local authorities therefore the MTFP has been compiled on the assumption that this funding will continue beyond 2023/24. This model sets out the impact of no further funding from this source beyond 2023/24.

**Table 8 Alternative Scenario Model 4**

	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
MTFP Deficit	(0.203)	(0.530)	(0.698)
Model 4 Deficit	(0.491)	(0.823)	(0.997)
<b>Increase in Deficit</b>	<b>(0.288)</b>	<b>(0.293)</b>	<b>(0.299)</b>

- **Model 5 A Combination of the scenarios in Models 1 - 4**

Whilst it is impossible to predict what will happen regarding the assumptions in the MTFP a possible outcome could be a combination of all the scenarios outlined in models 1-4. This model sets out the combined impact of increased pay awards, an inflationary increase in settlement funding, a £5 increase in council tax and loss of the Services Grant.

**Table 9 Combined Scenario Model 5**

	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>
MTFP Deficit	(0.203)	(0.530)	(0.698)
Change in Deficit			
Model 1	(0.500)	(0.750)	(0.750)
Model 2	0.496	0.505	0.516
Model 3	0.281	0.286	0.292
Model 4	(0.288)	(0.293)	(0.299)
<b>MTFP Deficit</b>	<b>(0.214)</b>	<b>(0.782)</b>	<b>(0.939)</b>

19. The alternative scenario models set out above illustrate how sensitive the overall MTFP deficit position is to small changes in the underlying assumptions.

### **Budget Pressures**

20. The following budget pressures have been identified some of which have been incorporated into the revised MTFP:

#### **Pay Awards**

21. The MTFP includes an allowance for pay increases of 3% in 2024/25 and 2% in 2025/26 and 2026/27. If inflation does not reduce in line with government expectations pay awards could exceed this level. Each additional 1% increase in pay costs in the region of £250,000. Any unfunded pay increase above the level included in the MTFP would therefore have a significant impact on the forecast deficit.

#### **Inflation**

22. In addition to the increase in general inflation, there have been significant increases in the cost of gas, electricity, and fuel. The MTFP includes an allowance for inflation of 5% in 2023/24 and 2% thereafter. A further allowance to cover exceptional inflationary pressures has been made within the contingencies budget which can be allocated to budget holders on an exceptional basis should the need arise.

## Interest Rates

23. The Authority now borrows to fund the majority of capital expenditure. Recent rises in interest rates continue to have an impact on the revenue budget as the repayment cost of borrowing increases.

## Firefighters Pension Scheme (FPS)

24. Following the last valuation of the Firefighters' Pension Scheme there was an average increase of 12.6% in the employer's contribution rate which resulted in an increase of £1.5M in the overall cost. In previous years, the government have made grant funding available towards the additional cost and this funding continued in 2023/24. We expect this funding to be mainstreamed into the settlement funding assessment at some point in the future.

## Balancing the Budget over the Medium-Term

25. At the Fire Authority strategic planning day on 10 October 2022, members received an update on the options that have been modelled to shape the Service's Emergency Response provision in future years together with alternative options for service delivery. A summary of the identified savings options which have not been implemented is set out in Table 10 below:

**Table 10: Summary of Options to Balance the Budget**

<b>Option</b>	<b>Saving £m</b>	<b>Response Standards Impact</b>
SRU Unit Crewed	0.208	Least
Remove 1 x station TRV	0.208	Least
2 x stations 1 pump and 1 TRV	1.381	Greater
2 x stations 2 <sup>nd</sup> pump to day crewing	0.695	Greater
2 x stations to day crewing	1.023	Greater
2 x stations removal of 2nd pump	1.913	Greatest
2 x stations to RDS only	1.398	Greatest

26. At this stage none of the above options have been incorporated into the MTFP.

27. Work is ongoing to revise the above list of options and further details will be presented to members for discussion at the strategic planning day on 16 November 2023.

## Reserves

28. The reserves held by the Authority are reviewed on an ongoing basis in accordance with the agreed reserves policy which states that the Authority will:
- Set aside sufficient sums in earmarked reserves as it considers prudent to do so.
  - Aim to maintain a general reserve of 5% of the net expenditure currently £1.605M
29. The estimated reserves position at the end of 2022/23 and for the remainder of the MTFP period is set out in table 11 below:

**Table 11: Estimated Reserves Position 2022/23 – 2026/27**

Reserve	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
General Reserve	1.605	1.605	1.605	1.605	1.605
Earmarked Reserves	3.902	2.756	2.157	2.157	2.157
<b>TOTAL RESERVES</b>	<b>5.507</b>	<b>4.361</b>	<b>3.762</b>	<b>3.762</b>	<b>3.762</b>

30. The total reserves balance on 31 March 2023 was £5.507M, a reduction of £243,000 on the previous year. Total reserves are forecast to reduce by a further £1.745M to £3.762M over the MTFP period. Whilst the level of reserves is considered to be adequate, they are not sufficient to assist in balancing shortfalls in the MTFP.

## Conclusion

31. Following the implementation of riding with a crew of 4 on all fire appliances together with the identification of savings and increased investment income, the forecast shortfall over the MTFP period has reduced from £1.637M to £0.698M. However, this is based upon a number of assumptions which could turn out to be different affecting the forecast shortfall position.
32. Work has commenced on preparing the 2024/25 budget and MTFP and the assumptions will be updated as information becomes available. Further reports will be presented to the Committee prior to approval of the 2024/25 budget and MTFP at the meeting of the Fire Authority on 16 February 2024.

## Recommendations

33. Members are requested to **note** the report.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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