Audit Findings

Year ending 31 March 2018

Hereford & Worcester Fire Authority

17 July 2018

Contents

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key issues arising from the statutory audit of Hereford & Worcester Fire Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion: • the Authority's financial statements give a true and fair view of the Authority's financial position and of the group and Authority's expenditure and income for the year, and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on site during May, June and July. Our findings are summarised on pages 4 to 13. We have not identified any adjustments to the financial statements that have affected the Statement of Comprehensive Income and Expenditure. Audit adjustments are detailed in Appendix B. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit & Standards Committee meeting on 25 July 2018, as detailed in Appendix D. These outstanding items include: - receipt of management representation letter; and - review of the final set of financial statements. We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	We have completed our risk based review of the Authority's value for money arrangements. We have concluded that Hereford & Worcester Fire Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 14 to 16.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Authority's business and is risk based, and in particular included:

- An evaluation of the Authority's internal controls environment including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

The key messages arising from our audit of the Authority's financial statements are:

- there were no adjustments to any of your primary statements;
- there are no unadjusted misstatements;
- the financial statements were submitted before the deadline;
- officers responded to questions in a timely manner;
- officers have made an adjustment to the brought forward figures for the Place Partnership Limited (PPL) pension fund asset and liability. These net off with no overall effect;
- included an additional contingent liability disclosure in respect of cases where pensions may have been paid incorrectly due to loss of protected pension age;
- restated the PWLB loan fair value figure from £14.074m to £13.99m; and
- officers have made a number of minor changes to the financial statements to correct typographical errors.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit & Standards Committee meeting on 25 July, as detailed in Appendix D. These outstanding items include:

- receipt of management representation letter; and
- review of the final set of financial statements.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan.

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process	Auditor commentary
Management do not undertake a formal assessment of whether the Authority is a going concern. The Authority has a sound income stream through Council Tax (£21.8m) and Business Rates (£2.4m). It has delivered a balanced budget year on year and has a realistic Medium Term Financial Strategy. The Authority also has usable, non earmarked reserves of £1.8m.	This is reasonable as the Authority has a realistic Medium Term Financial Strategy and sufficient reserves to cover any short term unexpected need. It would be considered a going concern even if it demised and the services transferred to another body. Our Informing the Audit Risk Assessment report, presented to the Audit & Standards Committee on 25 April, shows on pages 15 to 16 the arrangements in place to demonstrate that the Authority is a going concern.
Work performed	**Auditor commentary**
Our audit work, including our VFM work, has not raised any doubts around the going concern assumption. Also, in the public sector, going concern is taken to mean that the services are transferred to or delivered by another body. As the Authority’s functions would be delivered by any successor body, the threat of re-organisation does not apply.	We note that the Authority has appealed to the Royal Court of Justice for a Judicial Review over the decision to transfer Governance to the Police and Crime Commissioner. The appeal has not yet been heard. As stated in “Work performed” the Authority functions would continue in any event, and it is therefore appropriate to use the going concern assumption. We have nothing to report in relation to Going Concern.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Hereford & Worcester Fire Authority, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for Hereford & Worcester Fire Authority.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.	**Auditor commentary** We have undertaken the following work in relation to this risk: • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness • obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness • evaluated the rationale for any changes in accounting policies or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of pension fund net liability** The Authority's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	**Auditor commentary** We have undertaken the following work in relation to this risk: • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement • evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation was carried out • undertook procedures to confirm the reasonableness of the actuarial assumptions made • checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. The Authority has amended the brought forward liability and asset figure to correctly include the amounts in respect of Place Partnership Limited (PPL). Owing to the agreed arrangements for the PPL pension liability, the liability is matched by an equal asset. Hence, there was no overall impact on the underlying deficit. Our audit work has not identified any issues in respect of the pension fund net liability.

Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
Employee remuneration Payroll expenditure represents a significant percentage (66%) of the Authority's operating expenses. As the payroll expenditure comes from a number of individual transactions and an interface with a sub-system there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.	**Auditor commentary** We have undertaken the following work in relation to this risk: • evaluated the Authority's accounting policy for recognition of payroll expenditure for appropriateness • gained an understanding of the Authority's system for accounting for payroll expenditure and evaluated the design of the associated controls • obtained the year-end payroll reconciliation and ensured amount in accounts can be reconciled to ledger and through to payroll reports • agreed payroll related accruals (e.g. unpaid leave accrual) to supporting documents and reviewed any estimates for reasonableness • tested a sample of employee remuneration payments for the period to ensure they have been accurately accounted for. Our audit work has not identified any issues in respect of employee remuneration.
Operating expenses Non-pay expenses on other goods and services also represents a significant percentage (22%) of the Authority's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention.	**Auditor commentary** We have undertaken the following work in relation to this risk: • evaluated the Authority's accounting policy for recognition of non-pay expenditure for appropriateness • gained an understanding of the Authority's system for accounting for non-pay expenditure and evaluate the design of the associated controls • documented the accruals process and the controls management have put in place. Challenged any key underlying assumptions, the appropriateness of the source of data used and the basis for calculations • obtained a listing from the bank statements of non-pay payments made in April, and ensured that they have been charged to the appropriate year. Our audit work has not identified any issues in respect of completeness of operating expenses.

Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
Firefighters pension scheme The Authority administers the firefighters pension schemes, with the Firefighters Pension Fund Account being included in the financial statements. We identified completeness and accuracy of pension benefits payable as a risk requiring particular audit attention.	**Auditor commentary** We have undertaken the following work in relation to this risk: • reviewed and documented the control environment for firefighters' pensions benefits payments and conducted walkthrough testing to ensure controls in place have been functioning effectively in the period • tested a sample of firefighters' pensions benefit payments for the period to ensure they have been accurately accounted for • agreed pension disclosures in the financial statements to supporting evidence • completed substantive analytical procedures on the total pensions liability to ensure completeness of liability. Our audit work has not identified any issues in respect of completeness of the firefighters pension scheme.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• The accounts of the Authority are maintained on an accruals basis. Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction flow to the Authority. (Accounting Policy 2). • Where revenue has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. (Accounting Policy 2). • The Authority has adopted the standard revenue recognition for Local government as set out in the Code for the receipt of Government Grants. Government grants and contributions are recognised in the CIES when conditions attached to the grant or contribution have been satisfied. Government grants that have not been satisfied are carried in the Balance Sheet as creditors. (Accounting Policy 46). • The Authority has adopted the standard revenue recognition for Local government as set out in the Code for the receipt of council tax and non-domestic rates income. The Council tax and the non-domestic rates income included in the CIES will show the accrued income for the year. (Accounting Policy 52). • The Authority's Balance Sheet shows the proportion of surplus/deficit of the Billing Authorities' Collection Fund in the debtors/creditors balance. The Authority also shows the attributable share of the impairment allowance for doubtful debts and a provision for non-domestic rates appeals. (Accounting Policy 53).	The Authority's revenue recognition policies are appropriate, adequate and Code compliant.	(Green)

Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	Key estimates and judgements include: – Useful life of PPE – Revaluations – Impairments – Accruals – Valuation of pension fund net liability	The Authority's approach to estimates and judgements are reasonable and appropriately disclosed, using expert advice where appropriate. We are satisfied that the valuations recognised in the balance sheet are not materially different to their carrying fair value.	**(Green)**
Other critical policies	We have reviewed the Authority's policies against the requirements of the CIPFA Code and accounting standards.	We have reviewed the Authority's policies against the requirements of the CIPFA Code of Practice. The Authority's accounting policies are appropriate and consistent with previous years. Accounting policies 2 and 3 set out the policies for recognising income and expenditure. We are satisfied that the exceptions to the standard policy at accounting policy 3 do not lead to any material or significant misstatement.	(Green)

Assessment
- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit & Standards Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A standard letter of representation has been requested from the Authority.
5	**Confirmation requests from third parties**	• We obtained direct confirmations from the PWLB for loans and from Worcestershire County Council for short term deposits which they manage on behalf of the Authority.
6	**Disclosures**	• Our review found no non-trivial omissions in the financial statements that have not been adjusted.
7	**Audit evidence and explanations**	• All information and explanations requested from management was provided.
8	**Significant difficulties**	• We have not encountered any significant difficulties with accounts closedown, production of draft accounts and working papers.

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified/Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unqualified opinion in this respect – refer to Appendix D.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Work is not required as the Authority does not exceed the threshold.
4	**Certification of the closure of the audit**	We intend to certify the closure of the 2017/18 audit of Hereford & Worcester Fire Authority in the audit opinion, as detailed in Appendix D.

Value for Money

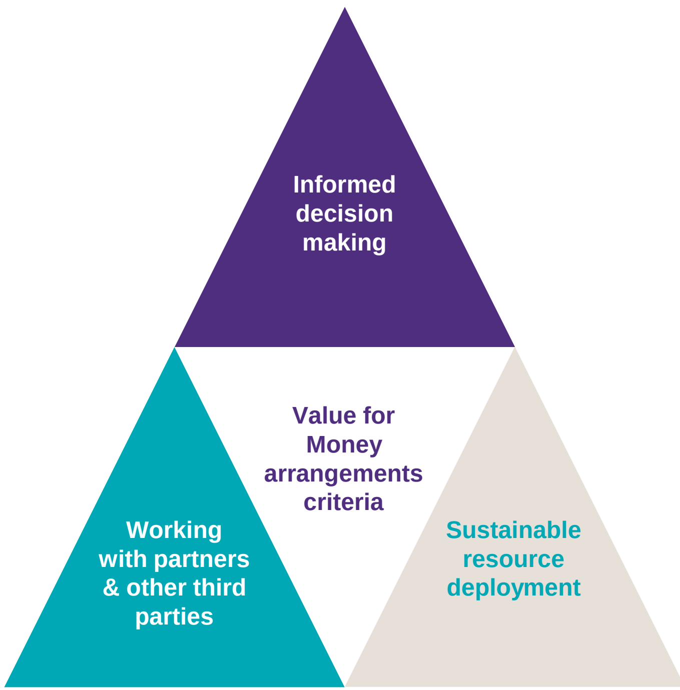
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you the Audit & Standards Committee in our Audit Plan dated April 2018.

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

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risk determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

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

We have focused our work on the significant risks that we identified in the Authority's arrangements. In arriving at our conclusion, our main considerations were the robustness of the Medium Term Financial Plan.

We have set out more detail on the risk we identified, the results of the work we performed and the conclusions we drew from this work on page 16.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Authority had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix D.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk (from audit plan)	Findings	Conclusion
1	**Medium Term Financial Plan (MTFP)** The latest Medium Term Financial Plan (MTFP) was approved in February. This reported that, with use of reserves totalling £4.5m, there is a balanced budget to 2021/22. Indicative projections for 2022/23 and 2023/24 show deficits of £697k and £616k respectively. As a consequence it is estimated that the Authority will need to identify further on-going annual savings of around £700k by 2022/23. We will: a) examine the savings plans and efficiencies in the MTFP which have been identified to achieve the forecasts; b) update our understanding of the main schemes to ensure they remain robust and realistic; c) look at the plans to address the longer term shortfall to ensure plans to return to a recurrent break even position from 2022/23 onwards are realistic.	There are no new savings plans or efficiencies identified in the latest MTFP. The Authority is using reserves, as intended, to smooth funding to match expenditure while the larger schemes come on stream. The MTFP approved in February 2018 showed the Authority to be considering increasing Council Tax by the maximum amount permitted which balances the budget, with the use of reserves, to 2021/22, but leaving a recurring deficit of £0.6m to £0.7m thereafter, with no remaining reserves. The Authority therefore had four years in which to bridge the deficit on a sustainable basis. We reviewed progress on the schemes to relocate HQ to Hindlip and let Kings Court to an NHS body (£0.24m pa saving); Crewing Changes (forecast to save £0.25m pa from 2020/21); and sharing fire control (£0.3m pa from 2021/22). We concluded that the forecast savings from the move to Hindlip are realistic and the project is on track. The forecast savings from the changes to crewing patterns are slightly reduced, but still reasonable. We noted that there were risks around introducing this, particularly with those Firefighters who vote against the proposal. However, the Authority is clear that crewing needs to change in order to deliver efficiencies, while maintaining service to communities. In the event, Firefighters voted against the proposed changes, and Officers have made savings in different ways. On Fire Control, the savings from this project are realistic and achievable, but again they are not within the Authority's control as they are dependent upon Shropshire & Wrekin Fire Authority joining in, and there are far more risks and challenges to them than Hereford & Worcester. If all of the current schemes realise the savings forecast and Council Tax is increased as planned, the MTFP approved in February showed the Authority will still be faced with a recurring deficit of around £0.6m a year from 2022/23, with no further reserves to fall back on. The final outturn position for 2017/18 shows an under spending, against the Net Budget, of £1.362m. The MTFP has been updated and presented to the Full Authority on 30 May, and shows that the lease of HQ generates additional income and use of 17/18 savings means that use of the Budget Reduction Reserve from 2019/20 to 2023/24 totals £3m and leaves £0.374m remaining in order to ensure a balances financial position. There remains an underlying deficit of around £0.3m beyond 2023/24. While this is six years away, many schemes take several years to come to fruition, and those easiest to deliver will have already been implemented. While this situation is no different to many other public sector bodies, the Authority does need to identify how a sustainable, long term, balanced budget can be achieved.	**Auditor view** The MTFP approved in February 2018 identifies that with use of reserves totalling £4.5m, there is a balanced budget to 2021/22. Indicative projections for 2022/23 and 2023/24 show deficits of £697k and £616k respectively. As a consequence it is estimated that the Authority will need to identify further on-going annual savings of around £700k by 2022/23. While this is a comparatively sound financial position, the Authority does need to identify how a sustainable, long term, balanced budget can be achieved. **Management response** The Authority continues to implement the significant planned measures and strives to identify further efficiencies. The strong MTFP position allows the Authority to begin to consider the use of these efficiencies to enhance service provision to our communities. There is a sensible use of reserves to meet specific containable costs without jeopardising the underlying financial position. Whilst not ignoring the residual £0.3m saving required by the end of the MTFP period it should be noted that council tax-base assumptions over the period are cautious and annual increases in line with the lowest actual annual increase over the last 5 years would eliminate this gap.

Independence and ethics

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No non-audit services were identified.

Follow up of prior year recommendations

We identified the following issues in the audit of Hereford & Worcester Fire Authority's 2016/17 financial statements, which resulted in three recommendations being reported in our 2016/17 Audit Findings report. We are pleased to report that management have implemented all of our recommendations, except one, which has been delayed.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	**Security administration rights granted to those performing financial reporting processes or controls** At the time of review, two individuals responsible for performing financial reporting processes or controls had the ability to administer security within Technology One. The combination of financial reporting duties and security administration is considered a segregation of duties conflict. This finding was previously reported in our previous review and no action has been taken to address our recommendations. <u>This condition poses the following risk(s) to the organisation:</u> Segregation of duties is one of the most important internal controls. To achieve appropriate segregation of duties, administrator rights should not be assigned to staff who are involved in the financial reporting process. This could result in a risk of: • unauthorised changes to system configuration parameters • creation of unauthorised accounts, • unauthorised updates to their own account's privileges, • security administration processes (such as user administration processes) may not function consistently or reliably over time to control access to information assets • internal access to information assets and administrative functionality may not be restricted on the basis of legitimate business need.	**Recommendation:** Management should implement a formal monitoring process designed to detect misuse of administrative functionality by personnel responsible for performing financial reporting processes or controls. **Management response**: The Finance Section is very small, so there are insufficient staff to always ensure full separation of duties for Security Administrators as they do have to undertake other finance duties. As separation of duties is viewed as fundamental to the functioning of the section compensating controls have been put in place to ensure both staff and the Authority are safeguarded. No Technology One administrator is able to authorise payments or bank transfers and have no privileges to sign cheques or authorise amendments to the bank information. **Follow up**: Not required.

Assessment
✓ Action completed
X Not yet addressed

Follow up of prior year recommendations

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
2	✓	**Active Directory Account lockout after unsuccessful login attempts** Active Directory accounts are locked following 25 unsuccessful login attempts, this number is considered excessive. This finding was previously reported in our previous review and no action has been taken to address our recommendations. This condition poses the following risk(s) to the organisation: In the absence of this control there is a risk that user accounts could be compromised through password guessing or cracking.	**Recommendation:** The number of failed login attempts permitted for Active Directory should be reduced to between 3-5 in line with recognised best-practice. **Management response:** In October 2017, the Fire Authority will begin the implementation of the Office365 environment this will incorporate the appropriate changes to reduce the number of log in attempts. **Follow up:** The Office 365 project has been delayed to the third quarter of 2018.
3	✓	**Ineffective process of Information Security policies acknowledgement by users** During our review, we noted that all employees are required to sign a form stating that they have read and agree to abide by HWFRA IT Security Policy. This is read in conjunction with Acceptable use policy. However, HR do not consistently follow these to ensure that all employees have signed the confidentiality agreements and acceptable use. This condition poses the following risk(s) to the organisation: Confidentiality agreements helps clarify and reinforce the importance that the organisation places on security in the minds of the people signing them. They also help the organisation pursue disciplinary or legal action against a person who breaches confidentiality. Not requiring staff to sign a confidentiality agreement may contribute to a sense among staff that security is not a high priority; however, this is of relatively low importance compared to, say, management's attitude to control.	**Recommendation:** All permanent employees, temporary staff and contractors sign a confidentiality agreement before being connected to the organisation's IT facilities **Management response:** This process was not being undertaken within the Human Resources section systemically, this has now been identified and is being fully implemented within the induction process. **Follow up:** This is now included in the employee induction pack.

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

There were no misstatements which impacted on the key statements and the reported net expenditure for the year.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Fair Value of PWLB loans	Fair value figure disclosed for PWLB is the PWLB redemption rate of £14.074m and is incorrect. Agreed amount needs to be recalculated. Authority has made recalculation and value is amended to £13.998m.	✓
Contingent liability disclosure	The note has been enhanced to: 1) Provide more detail on the Pension Tribunal Contingent Liability; and 2) Include a disclosure on legal cases where pensions may have been paid incorrectly due to loss of protected pension age.	✓
Pension fund disclosures	Pension disclosure notes have been restated for 2015/16 and 2016/17 in respect of the present value of the defined benefit obligation and fair value of Plan assets for the Local Government Pension Scheme. Restatement is disclosural only and arises from an omission from the 2015/16 pension disclosures for Place Partnership Ltd (PPL). Both the asset and liability were understated by £1.6m.	✓

Impact of unadjusted misstatements

There were no adjustments identified during the 2017/18 audit which have not been made within the final set of financial statements.

Fees

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

Audit Fees

	Proposed fee (£)	Final fee (£)
Authority Audit	32,872	32,872
Total audit fees (excluding VAT)	**£32,872**	**£32,872**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).
No non-audit or audited related services have been undertaken for the Authority.

Audit opinion

We anticipate we will provide the Authority with an unmodified audit report

Independent auditor's report to the members of Hereford and Worcester Fire Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hereford and Worcester Fire Authority (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Firefighters' Pension Fund Account and the Firefighters' Pension Fund Statement of Net Assets, and the related 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

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 for the audit of the financial statements section of our report. We are independent of the Authority 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.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 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 Authority's members 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Treasurer is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 2 to 80, other than the financial statements and our auditor's report thereon. 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 of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources 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.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Treasurer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 13, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Treasurer. 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 2017/18, which give a true and fair view, and 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.

In preparing the financial statements, the Treasurer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit and Standards Committee is Those Charged with Governance.

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.

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. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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 the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied 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 review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Phil Jones

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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25 July 2018