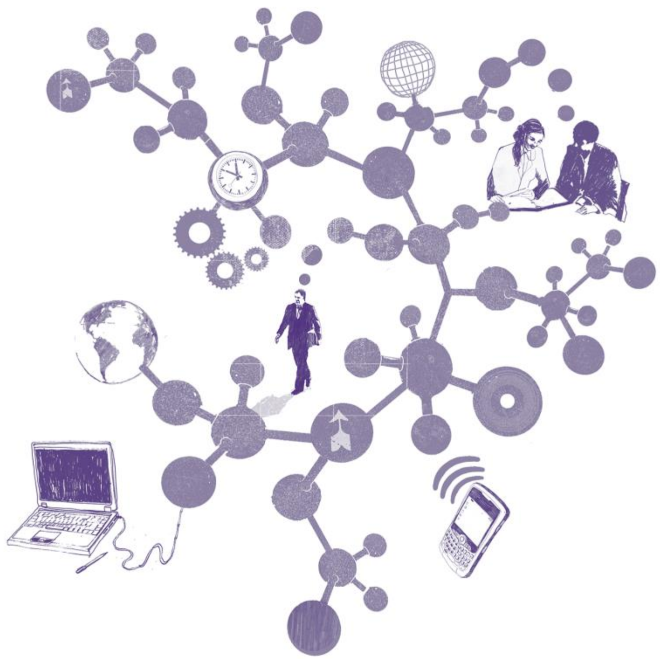
# The Audit Findings for Hereford & Worcester Fire Authority

**Year ended 31 March 2016**

September 2016




**Mark Stocks**
Partner
T 0121 232 5437
E mark.c.stocks@uk.gt.com

**Neil Preece**
Audit Manager
T 0121 232 5292
E neil.a.preece@uk.gt.com

**Allison Thomas**
Executive
T 0121 232 5278
E allison.a.thomas@uk.gt.com

Grant Thornton

Private and Confidential

Hereford & Worcester Fire Authority
2 Kings Court
Charles Hastings Way
Worcester
WR5 1JR

Grant Thornton UK LLP
Colmore Building
20 Colmore Circus
BIRMINGHAM
West Midlands
B4 6AT

T +44 (0) 121 212 4000

www.grant-thornton.co.uk

September 2016

Dear Members of the Audit & Standards Committee

**Audit Findings for Hereford & Worcester Fire Authority for the year ending 31 March 2016**

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Hereford & Worcester Fire Authority, the Audit & Standards Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

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 primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours faithfully

Mark Stocks

# Contents

# Section 1: Executive summary



Our audit of your accounts went well. Officers again prepared the accounts before the 30 June deadline. Working papers were good quality and officers were responsive to our questions. There are no significant changes to the accounts that we need to report to you, but we did identify one amendment, which officers have decided not to make. Our audit also identified a number of disclosure amendments and improvements that your officers have agreed to in the financial statements.

We anticipate being able to issue an unqualified opinion on your financial statements and an unqualified value for money conclusion.

## Purpose of this report

This report highlights the key issues affecting the results of Hereford & Worcester Fire Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Authority's financial statements give a true and fair view of the financial position of the Authority and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Authority or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Authority and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We have nothing to report on these areas and we have not used any of these powers.

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2016. Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements;
- obtaining and reviewing the management letter of representation;
- updating our post balance sheet events review to the date of signing the opinion; and
- Whole of Government Accounts.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

## Key audit and financial reporting issues

**Financial statements opinion**

We have identified one adjustment affecting the Authority's reported financial position (details are recorded in section two of this report). Accrued income and short term debtors are both overstated by £43k. However, officers have decided not to amend the accounts for this item on the basis that it does not materially effect the Users interpretation of the Accounts and final position. In our Letter of Representation we ask the Audit & Standards Committee to agree this approach. The draft and audited financial statements for the year ended 31 March 2016 therefore both recorded net expenditure of £33,257k. We have also recommended a number of adjustments to improve the presentation of the financial statements.

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

- our audit went well and we were able to complete our detailed testing as planned;
- officers were responsive to our questions and adopted a positive attitude throughout the audit;
- we have asked for further assurances, through the Letter of Representation, that it is appropriate for the pension fund liability associated with those staff who transferred to Place Partnerships Ltd (PPL) to be included in the Authority's accounts rather than in PPL's accounts; and
- we did not identify any significant issues affecting the primary statements. The only changes made to the financial statements were to further improve clarity and better comply with the CIPFA Code.

Further details are set out in section two of this report.

We anticipate providing an unqualified audit opinion in respect of the financial statements (see Appendix A).

**Other financial statement responsibilities**

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes 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 information of which we are aware from our audit.

We did not find any issues in relation to this.

## Controls

**Roles and responsibilities**

The Authority's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Authority.

**Findings**

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

## Value for Money

Based on our review, we are satisfied that, in all significant respects, the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

## Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

## The way forward

Matters arising from the financial statements audit and our review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance & Assets (Treasurer).

## Acknowledgement

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.

**Grant Thornton UK LLP**
**September 2016**

# Section 2: Audit findings



The Authority presented a full set of accounts prior to the deadline and provided good working papers to support the statements. We requested one relatively minor adjustment to the financial statements – income and short term debtors were both overstated by £43k. Officers have decided not to amend the accounts for this item on the basis that it does not materially effect the Users interpretation of the Accounts and final position. In our Letter of Representation we ask the Audit & Standards Committee to agree this approach.

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £645k (being 1.8% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £32k. This differs with the value reported in our audit plan due to a typing error.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

| Balance/transaction/disclosure | Explanation | Materiality level |
|---|---|---|
| Cash and cash equivalents | All transactions made by the Authority affect the cash balance and it is therefore considered to be material by nature. | £64.5k |
| Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements | Due to public interest in these disclosures and the statutory requirement for them to be made. | £10k |
| Disclosure of auditors' remuneration in notes to the statements | Due to public interest in these disclosures and the statutory requirement for them to be made. | £10k |

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

| | Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|---|---|---|---|
| 1. | **The revenue cycle includes fraudulent transactions**<br>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.<br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. | Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Hereford & Worcester Fire Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted because:<br>• there is little incentive to manipulate revenue recognition<br>• opportunities to manipulate revenue recognition are very limited<br>• the culture and ethical frameworks of local authorities, including Hereford & Worcester Fire Authority, mean that all forms of fraud are seen as unacceptable. | Our audit work has not identified any issues in respect of revenue recognition. |
| 2. | **Management over-ride of controls**<br>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities. | We have undertaken the following work in relation to this risk:<br>• review of entity controls<br>• testing of journal entries<br>• review of accounting estimates, judgements and decisions made by management<br>• review of unusual significant transactions. | Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.<br>We set out later in this section of the report our work and findings on key accounting estimates and judgements. |

# Audit findings against significant risks (continued)

We have also identified the following significant risk of material misstatement from our understanding of the Authority. We set out below the work we have completed to address these risks.

| | Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|---|---|---|---|
| 3. | **Valuation of pension fund net liability**<br>The Authority's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements. | We have undertaken the following work in relation to this risk:<br>• Identification of the controls put in place by management to ensure that the pension fund liability is not materially misstated<br>• Assessment of whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement<br>• Review the competence, expertise and objectivity of the actuaries who carried out your pension fund valuation<br>• Gain an understanding of the basis on which the valuation is carried out<br>• Undertake procedures to confirm the reasonableness of the actuarial assumptions made<br>• Review the consistency of the pension fund assets and liabilities and disclosures in notes to the financial statements with the actuarial reports from your actuaries. | We considered the agreements between the partners for the transfer of staff to Place Partnerships Ltd (PPL). We concluded that the documentation to support the pension liability commitments and related accounting was ambiguous. The actuary confirmed that PPL liabilities were matched by assets and we consider that the risks and liabilities currently lie with the partners. The accounting and presentation in the accounts reflects this position. We have confirmed that PPL has the same understanding of responsibility for the liability and accounting is consistent.<br><br>We have sort further assurance through the Letter of Representation, that it is appropriate for the pension fund liability associated with those staff who transferred to Place Partnerships Ltd (PPL) to be included in the Authority's accounts rather than in PPL's accounts. |

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|---|---|---|---|
| **Employee remuneration** | Employee remuneration accruals understated (Remuneration expenses not correct) | We have undertaken the following work in relation to this risk:<br>• documented our understanding of processes and key controls over the transaction cycle<br>• undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding<br>• tested a sample of employee remuneration payments<br>• agreed employee remuneration disclosures in the financial statements to supporting evidence<br>• reviewed the reconciliation between payroll and the general ledger<br>• agreed the employee remuneration accrual in the financial statements to supporting evidence. | Our audit work has not identified any significant issues in relation to the risk identified. |
| **Operating expenses** | Creditors understated or not recorded in the correct period (Operating expenses understated) | We have undertaken the following work in relation to this risk:<br>• documented our understanding of processes and key controls over the transaction cycle<br>• undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding<br>• reviewed the calculation of significant accruals and other items<br>• reviewed payments after the year end<br>• tested a sample of operating expenses. | Our audit work has not identified any significant issues in relation to the risk identified. |

# Audit findings against other risks (continued)

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|---|---|---|---|
| **Fire fighters' Pensions Benefit Payments** | Benefits improperly computed/ claims liability understated | We have undertaken the following work in relation to this risk:<br>• documented our understanding of processes and key controls over the transaction cycle<br>• undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding<br>• tested a sample of fire fighters' pensions benefit payments<br>• agreed pension disclosures in the financial statements to supporting evidence<br>• undertaken substantive analytical procedures on the total pension liability to ensure completeness of liability. | Our audit work has not identified any significant issues in relation to the risk identified. |

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Authority's financial statements.

| 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).<br>• 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).<br>• 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 47).<br>• 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 53).<br>• 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 54). | The Authority's revenue recognition policies are appropriate, adequate and Code compliant. | ● (Green) |

**Assessment**
● (Red) Marginal accounting policy which could potentially attract attention from regulators
● (Amber) Accounting policy appropriate but scope for improved disclosure
● (Green) Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements (continued)

.

| Accounting area | Summary of policy | Comments | Assessment |
|---|---|---|---|
| **Judgements and estimates** | Key estimates and judgements include:<br>– Useful life of PPE<br>– Revaluations<br>– Impairments<br>– Accruals<br>– Valuation of pension fund net liability<br>– Recognition of additional top up grant from government in respect of the Pension Ombudsman decision in GAD v Milne. | The Authority's approach to estimates and judgements are reasonable and appropriately disclosed, using expert advice where appropriate.<br>We are satisfied that the valuations recognised in the balance sheet are not materially different to their carrying fair value.<br>Our review of key estimates and judgements, including recognising the top up grant income, has not highlighted any issues which we wish to bring to your attention. | ● (Green) |
| **Going concern** | The Director of Finance & Assets (Treasurer) has a reasonable expectation that the services provided by the Authority will continue for the foreseeable future. Members concur with this view. For this reason, the Authority continues to adopt the going concern basis in preparing the financial statements. | We have reviewed the Authority's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements. | ● (Green) |
| **Other accounting 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.<br>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**
- ● (Red) Marginal accounting policy which could potentially attract attention from regulators
- ● (Amber) Accounting policy appropriate but scope for improved disclosure
- ● (Green) 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 letter of representation has been requested from the Authority.<br>• In particular, representations have been requested from management in respect of:<br>– the significant restatement made for GAD v Milne.<br>– the disclosures relating to the Pension guarantee.<br>– the reasons for not adjusting the financial statements in respect of the overstatement of income and debtors. |
| 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. |

# Other communication requirements (continued)

| | Issue | Commentary |
|---|---|---|
| 7. | **Matters on which we report by exception** | We are required to report on a number of matters by exception. However, we have not identified any issues we would be required to report by exception in the following areas:<br>• 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 information of which we are aware from our audit.<br>• The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Authority acquired in the course of performing our audit, or otherwise misleading. |
| 8. | **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.<br><br>Note that detailed work is not required as the Authority does not exceed the threshold set by the National Audit Office (NAO). |

# Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses and Fire fighters' pensions benefit payments as set out on pages 12 and 13 above.

The controls were found to be operating effectively and we have no matters to report to the Audit and Standards Committee.

# Adjusted misstatements

We have not identified any adjustments to the financial statements which officers have made. Page 19 provides details of one adjustment which officers have decided not to make. Page 20 provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

# Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit & Standards Committee is required to approve management's proposed treatment of the item recorded within the table below:

| | Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 | Reason for not adjusting |
|---|---|---|---|---|
| 1 | Overstatement of debtors balance:<br>• Reduction in income<br>• Reduction in short term debtors<br>• Decrease in Total Comprehensive Income & Expenditure<br>• Overall Decrease in Net Assets | <br>43 | <br><br>(43)<br><br>(43) | • The actual sum (and more) will be received in 2016/17.<br>• It does not materially effect the Users interpretation of the Accounts and final position. |
| | | | | |
| | **Overall impact** | **£43** | **(£43)** | |

# Misclassifications 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.

| | Adjustment type | Value £'000 | Account balance | Impact on the financial statements |
|---|---|---|---|---|
| 1 | Disclosure | - | CIES | The CIES was updated for noted departures from the Code requirements, as listed below:<br>• CIES updated to detail the analysis of the amounts included in 'other operating expenditure; amounting to £3,631k as per section 3.4.2.46 of the Code.<br>• CIES updated to re-title 'actuarial (gains) losses on pensions assets/ liabilities' with 'Remeasurements of the net defined benefit liability' per section 3.4.2.44 of the Code. |
| 2 | Disclosure | - | Financial Instruments (Notes 34 – 51) | Financial instruments were updated to take account of the additional disclosure requirements applying for the first time in 2015/16 due to the new accounting standard on fair value (IFRS 13). |
| 3 | Disclosure | - | Related Party Transactions (Notes 9 – 13) | The disclosure relating to 'officers' in the related party transactions note was updated to reflect the actual current position in respect of the related party. |
| 4 | Disclosure | - | Pension Arrangements (Notes 59 – 74) | The disclosures for the defined benefit plans were updated to fully comply with Code requirements in respect of amount, timing and uncertainty of future cash flows. |
| 5 | Disclosure | - | Pension Arrangements (Notes 59 – 74) | A number of other updates were made to the pension arrangements at Notes 59 to 74, to address mis-disclosures due to either typos, inconsistencies and/or difference with the actuary reports. |
| 6 | Disclosure | 100 | Cash & Cash Equivalents (Notes 54 – 55) | The Bank Current Accounts disclosure was amended to correct the misstatement of £1,704k to £1,804k and the short term deposits with Worcestershire County Council (WCC) was also amended to correct the misstatement of £13,500k to £13,400k. |
| 7 | Disclosure | 912 | Capital Commitments (Note 23) | An additional disclosure was made in capital commitments to reflect the continuing capital scheme for Evesham Fire Station & Hot Training Facility – total valuation at May 2016 was £912k. |
| 8 | Disclosure | - | Miscellaneous | A number of other minor disclosure amendments have been made due to matters identified during the course of the audit. None of these are considered individually significant to warrant further disclosure. |

# Section 3: Value for Money



The Authority has a realistic Medium Term Financial Plan which underpins the annual budget. Savings against budget have been made in recent years, with the surplus being set aside to finance any future deficits, or to pump prime projects.

The Authority has taken difficult decisions in rethinking the crewing patterns and appliances needed at stations. Savings are also achieved through the secondment programme and closer working with other public sector partners. A Voluntary Redundancy scheme has helped to reduce the number of excess staff.

However, the intention to use reserves to achieve breakeven is not sustainable in the long term and the Authority needs to consider how to get to a recurrent breakeven budget over time.

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Authority. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Authority has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

> *In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment and identified the following significant risks, which we communicated to you in our Audit Plan in April 2016:

- Workforce plans; and
- Medium Term Financial Plan gap.

We identified these risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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 risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks 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.

## Significant qualitative aspects

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 financial risks around having excess staff; and
- addressing the gap in the Medium Term Financial Plan.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 24 to 25.

## 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 A.

## 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 | Work to address | Findings and conclusions |
|---|---|---|
| **Workforce**<br>The Authority has been forward thinking in temporarily reducing the workforce, and therefore wholetime pay budget, by seconding staff to other Authorities. For the 2015/16 financial year, the secondments allowed the Authority to offset approximately £1,300k of wholetime uniformed staffing costs. With additional staff now being seconded and some staff transferring permanently as well as other unplanned leavers, the financial risk of returning staff is reduced. The Authority also has a reserve to mitigate this. However, there is still a financial risk around this. | We reviewed the project management and risk assurance frameworks established by the Authority to establish how it is identifying, managing and monitoring these risks. | Two years ago the Authority had around 50 staff too many. This has been predominantly managed through external secondments generating around £1.8m income for the Authority. A Voluntary Redundancy (VR) scheme has also been introduced. As at June 2016, as a result of the 18 VR to that date, the excess staff cost had reduced by £1.2m to £4m. The impact is that, after the secondment income, officers are forecasting that there should still be £2.3m in the Budget Reduction Strategy Reserve (which was created to manage the additional staff costs). There are still VR applications in the pipeline. If all of the applications are granted the excess staff cost would be reduced by a further £700k. By August 2018 the Authority is expecting to have the right number of fire fighters.<br><br>The project and risk management around this issue have been good. The Authority has been at the forefront of outward secondments which has reduced the number of excess staff in the medium term, allowing more longer term solutions to be put in place. For example, different crewing patterns and VR. The Authority has also built up a financial reserve to cover this (although not all of this will be needed). Projections have been cautious and reporting has been transparent. |
| **MTFP gap**<br>The Authority recently approved an updated MTFP. This confirmed that final budget gaps will be: 2016/17 £41k; 2017/18 £393k; 2018/19 £1,363k; 2019/20 £2,166k.<br><br>The forecast gap in the previous MTFP was £3.346m by 2019/20, so has come down by £1.2m. However, the gap is still significant for the Authority. | We reviewed the project management and risk assurance frameworks established by the Authority in respect of the more significant projects, to establish how the Authority is identifying, managing and monitoring these risks. | The latest MTFP projects an initial gap of £2.4m to 2019/20. It then makes some adjustments using government suggested and Authority assumptions to end up with a revised gap of £1.6m. These adjustments include, for example, additional pension charges of £315k, and lower inflation rates.<br><br>After taking account of savings plans and anticipated income generation, the likely gap for 2019/20 is £760k. The Authority is planning to use reserves to smooth this, over a four year period. Even then, if it did nothing, there would still be reserves to cover a further three years.<br><br>There are tentative long terms plans to address this residual deficit, but they need working up. In the long term, use of reserves to achieve breakeven is not sustainable and the Authority needs to consider how to get to a recurrent breakeven budget over time. |

### 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.

### Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

# **Section 4:** Fees, non-audit services and independence



The audit fee is unchanged from that previously reported to you. There are no independence issues.

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

## 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).

### 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 Auditing Practices Board's Ethical Standards and therefore we confirm that we 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 Auditing Practices Board's Ethical Standards.

# Section 5: Communication of audit matters



Audit matters have been communicated appropriately.

# Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

### Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Authority's key risks when reaching our conclusions under the Code.

It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

| Our communication plan | Audit Plan | Audit Findings |
|---|---|---|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.<br>Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged<br>Details of safeguards applied to threats to independence | ✓ | ✓ |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Non compliance with laws and regulations | | ✓ |
| Expected modifications to auditor's report | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |

# Appendices

# Appendix A: 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**

We have audited the financial statements of Hereford and Worcester Fire Authority (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes and include the firefighters' pension fund financial statements comprising the Firefighters' Pension Fund Account, the Firefighters' Pension Fund Statement of Net Assets and the related notes 1 to 11, and Appendix 1 – Restatement of Core Financial Statements & Related Notes. 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

**Respective responsibilities of the Treasurer and auditor**

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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

**Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

**Matters on which we are required to report by exception**

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

**Respective responsibilities of the Authority and auditor**

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.

We are required under Section 20(1)(c) of the Act 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.

**Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether 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 these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

**Certificate**

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

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

Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT

27 September 2016