

The Audit Findings for Hereford & Worcester Fire Authority

Year ended 31 March 2017

August 2017

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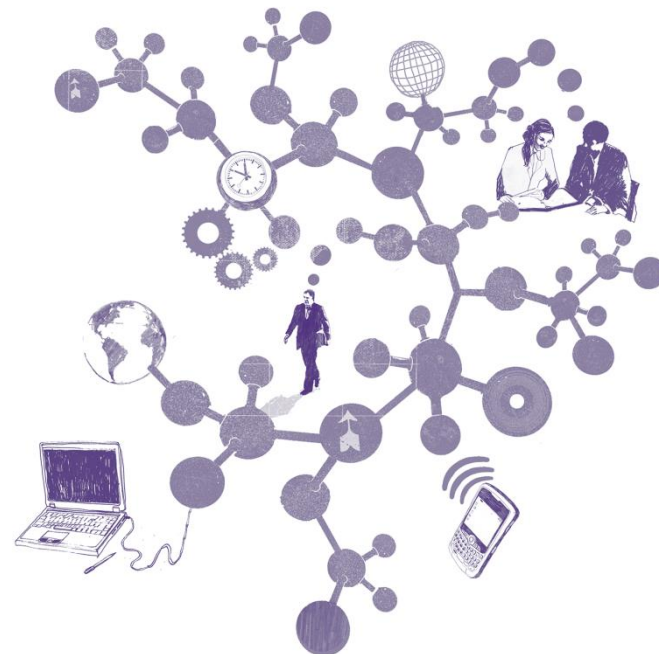
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August 2017

Dear Members of the Audit & Standards Committee

Audit Findings for Hereford & Worcester Fire Authority for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Hereford & Worcester Fire Authority, the Audit & Standards Committee), to oversee the financial reporting process, 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.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Our audit of your accounts went well. Officers prepared the accounts by early June, which bodes well for the end of May deadline next year. We will discuss areas where further improvements can be made in order to meet the audit deadline of 31 July 2018. 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. Our audit 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 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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 Council 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 (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Authority acquired in the course of performing our audit; or otherwise misleading.

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 year.

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 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 April 2017.

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; and
- updating our post balance sheet events review, to the date of signing the opinion.

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 not identified any adjustments affecting the Authority's reported financial position (details are recorded in section two of this report). The draft and audited financial statements for the year ended 31 March 2017 recorded net expenditure on Cost of Services of £30,629k. We have 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:

- the financial statements were prepared by early June, which places the Authority in a good position to meet the end of May deadline next year;
- 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 will discuss with officers further efficiencies in the audit process to meet the end of July deadline for next year; and
- we did not identify any significant issues affecting the primary statements. There are two changes to the Firefighters' Pension Fund Statement of Net Assets. (1) The top up receivable from the government - should be a positive £2,504k and not negative. (2) The Amounts due to the General Fund is misstated at £1,739k and should be (£3,269k). These net off so that there is Nil net effect on the Net Assets. The only other 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 a 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 AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Authority's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

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.

Further details of our work on other statutory powers and duties is set out in section four of this report.

The way forward

Matters arising from the financial statements audit and our review of the Council'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
August 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

The Authority presented a full set of accounts prior to the deadline and provided good working papers to support the statements.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £717k (being 2% of gross revenue expenditure reported in 2015/16). 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 £36k. This remains the same as reported in our audit plan.

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
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k It should be noted however, errors identified by testing will be assessed individually, with due regard given to the concept of materiality to both the Fire Authority and the related party.
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Hereford & Worcester Fire Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Hereford & Worcester Fire Authority, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • review of entity controls • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions. 	<p>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 controls and testing of journal entries has not identified any significant issues</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. 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
<p>Valuation of pension fund net liability</p> <p>The Authority's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. gained an understanding of the basis on which the valuation is carried out. undertaken procedures to confirm the reasonableness of the actuarial assumptions made. reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. obtained assurance from the external auditor of the Worcestershire County Council Pension Fund (WCCPF) regarding the relevant controls and processes in place at the WMPF in order that we can rely on the outputs from the WCCPF. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

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	<p>Payroll expenditure represents a significant percentage of the Authority's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> reviewed and documented the control environment for employee remuneration and conducted walkthrough testing to ensure controls in place have been functioning effectively in the period, in relation to the completeness assertion which we consider to present a risk of material misstatement to the financial statements. completed a monthly trend analysis of total payroll. tested a sample of employee remuneration payments for the period to ensure they have been accurately accounted for. reviewed the reconciliation between payroll and the general ledger. tested and agreed other payroll disclosures in the financial statements, such as senior officer remuneration and exit packages. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
Operating expenses	<p>We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> reviewed and documented the control environment for operating expenses and conducted walkthrough testing to ensure controls in place have been functioning effectively in the period. reviewed the year end accruals process and calculation of significant accruals. conducted unrecorded liabilities testing of payments after the year end. tested a sample of operating expenses for the period to ensure they have been accurately accounted for. tested a sample of creditor balances at 31/3/17. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Fire Pensions Benefits Payable	Benefits improperly computed / Claims liability understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • 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 significant issues in relation to the risk identified.


Going concern

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&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that we are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.

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	<ul style="list-style-type: none"> 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 47). 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). 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	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> – Useful life of PPE – Revaluations – Impairments – Accruals – Valuation of pension fund net liability 	<p>The Authority's approach to estimates and judgements are reasonable and appropriately disclosed, using expert advice where appropriate.</p> <p>We are satisfied that the valuations recognised in the balance sheet are not materially different to their carrying fair value.</p> <p>Our review of key estimates and judgements has highlighted one issue which we wish to bring to your attention. The Authority raised an invoice to Wychavon District Council in the amount of £394,437 on 16 October 2016. The invoice relates to the funding of Evesham Fire Station, but is being disputed by Wychavon DC. The Authority has not made any provision for doubtful debts in respect of this invoice. Given it is 10 months since the invoice date, and the significant value, we wish to bring this to your attention.</p>	 (Green)
Judgements - changes to the presentation of local authority financial statements	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>The Authority's approach to the presentational changes required is reasonable, and we have identified only minor changes that we have asked officers to make.</p>	 (Green)
Going concern	<p>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 continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the Authority's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.</p>	 (Green)

Accounting policies, estimates and judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies	We have reviewed the Authority's policies against the requirements of the CIPFA Code and accounting standards.	<p>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.</p> <p>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.</p>	 (Green)

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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Authority.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Our review found no non-trivial omissions in the financial statements that have not been adjusted.
7.	Matters on which we report by exception	<p>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:</p> <ul style="list-style-type: none"> 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. 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	<p>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.</p> <p>Note that detailed work is not required as the Authority does not exceed the threshold set by the National Audit Office (NAO).</p>

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.



We have also completed a review of the Authority's IT control environment, and have three issues to report to you as set out below.

	Assessment	Issue and risk	Recommendations
1.	 (Amber)	<p>Security administration rights granted to those performing financial reporting processes or controls</p> <p>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.</p> <p><u>This condition poses the following risk(s) to the organisation:</u></p> <p>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:</p> <ul style="list-style-type: none"> • 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. 	<p>Management should implement a formal monitoring process designed to detect misuse of administrative functionality by personnel responsible for performing financial reporting processes or controls.</p> <p>Management response:</p> <p>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.</p>

Assessment

- (Red) Material weakness - risk of material misstatement
- (Amber) Significant deficiency - risk of significant misstatement
- (Green) Deficiency - risk of inconsequential misstatement

Internal controls (continued)

	Assessment	Issue and risk	Recommendations
2.	 (Amber)	<p>Active Directory Account lockout after unsuccessful login attempts</p> <p>Active Directory accounts are locked following 25 unsuccessful login attempts, this number is considered excessive.</p> <p>This finding was previously reported in our previous review and no action has been taken to address our recommendations.</p> <p><u>This condition poses the following risk(s) to the organisation:</u></p> <p>In the absence of this control there is a risk that user accounts could be compromised through password guessing or cracking.</p>	<p>The number of failed login attempts permitted for Active Directory should be reduced to between 3-5 in line with recognised best-practice.</p> <p>Management response:</p> <p>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 login attempts.</p>
3.	 (Green)	<p>Ineffective process of Information Security policies acknowledgement by users</p> <p>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.</p> <p><u>This condition poses the following risk(s) to the organisation:</u></p> <p>Confidentiality agreements help 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.</p>	<p>All permanent employees, temporary staff and contractors sign a confidentiality agreement before being connected to the organisation's IT facilities</p> <p>Management response:</p> <p>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.</p>

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

Our audit included consideration of internal control 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.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

We identified two changes to the Firefighters' Pension Fund Statement of Net Assets which officers have made. The accounting entries were correct, but the signage for one of them was incorrectly copied into the table on page 68 of the accounts. These net off and so do have any impact on the Net Assets which remain at £0.

- 1) The top up receivable from the government - should be a positive £2,504k and not negative.
- 2) The Amounts due to the General Fund is misstated at £1,739k and should be (£3,269k).

Unadjusted misstatements

We have not identified any adjustments to the financial statements which officers have declined to make. The section above provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Misclassifications and disclosure changes

We have not identified any misclassification or disclosure changes which are significant enough to warrant separate disclosure. We identified a number of enhancements to the financial statements to better comply with the CIPFA Code and to correct typographical errors.

Impact of uncorrected misstatements in the prior year

In our Audit Findings Report for 2015/16 we set out one item which management declined to adjust the accounts for. This is set out below. The income was received in 2016/17, so this issue has been resolved.

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

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

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.

However, there are risks associated with some of the projects and some are not entirely within the Authority's control to deliver.

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, including fire authorities, 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 2016. AGN 03 identifies one single criterion for auditors to evaluate:

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

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 in and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk around the Medium Term Financial Plan to you in our Audit Plan dated April 2017.

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.

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 risk that we identified in the Authority's arrangements. In arriving at our conclusion, our main considerations were 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 page 23.

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 risk 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
<p>Medium Term Financial Plan (MTFP) The Authority approved a four year MTFP in February 2017. This identified a total deficit over the four years to 2020/21 of £1,750k.</p> <p>The Authority is planning to use reserves to smooth this over the four year period. This would still leave £1,430k in the reserve. In the long term, use of reserves to achieve breakeven is not sustainable and the Authority is working on some longer term schemes to get a recurrent budget over time.</p>	<p>We have:</p> <ul style="list-style-type: none"> • examined the savings plans and efficiencies in the MTFP which have been identified to achieve the forecasts; • tested a sample of these to ensure they are robust and realistic; and • looked at the plans to address the residual shortfall and how well these have been worked up to ensure they also are realistic and achievable. 	<p>The Authority has forecast that it will be able to set a balanced budget, through the use of an earmarked reserve specifically for the purpose, for the next five financial years, even if no action is taken to make further efficiencies. We note that the majority of the projects in place to address the underlying deficit are well worked through and realistic. It is therefore possible that the reserve will not be required in full, as savings start to materialise.</p> <p>The cost of running with "Excess Staff" is reducing - in 2018/19 the estimated cost is £589k, but this falls to £96k in 2019/20. The Budget Reduction Reserve will be used to cover the cost. As at 31 March 2017 this reserve had a balance of £3,063k.</p> <p>The MTFP reports budget surplus or deficits as: 2017/18 = £753k surplus; 2018/19 = £251k surplus; 2019/20 = £1,201k deficit; 2020/21 = £1,553k deficit. Giving a total over the MTFP of £1,750k deficit.</p> <p>This shortfall will be covered by the Budget Reduction Reserve, and the Authority has longer terms schemes in place which it considers will address the ongoing forecast deficit. However, there are risks associated with some of the schemes. In particular, the Wyre Forest Blue Light Hub is not within the Authority's control and is still not in a position to proceed. Similarly, the crewing savings depend on firefighters volunteering for a different work pattern and the changes are being consulted upon. The timescale for this scheme may be optimistic.</p> <p>On the basis of the Fire Authority plans and its current reserves, we have concluded that the financial risks are sufficiently mitigated and the Authority has proper arrangements for ensuring sustainable resource deployment.</p>

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

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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 £
Fire 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

- Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence.
- 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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The table below summarises all non-audit services which were identified.

We confirm that no non-audit or audited related services have been undertaken for the Authority.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Audit matters have been communicated appropriately.

Communication to those charged with governance

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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.psa.co.uk/appointing-auditors/terms-of-appointment>).

We have been appointed as the Council'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 Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council 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 Council 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. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged 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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

A. Audit Opinion

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 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and the related notes and include the firefighters' pension fund financial statements comprising the Fund Account and the Fund Statement of Net Assets Statement. 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 2016/17.

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 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.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 for the financial year for which the financial statements are prepared 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 Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act 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 Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

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

Respective responsibilities of the Authority and auditor

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.

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 for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 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 2017.

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 form a view on whether in all significant respects the Authority has put in place proper 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 criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of its resources for the year ended 31 March 2017.

Certificate

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

Mark Stocks

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

The Colmore Building
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6 September 2017



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