

The Audit Findings for Hereford & Worcester Fire Authority

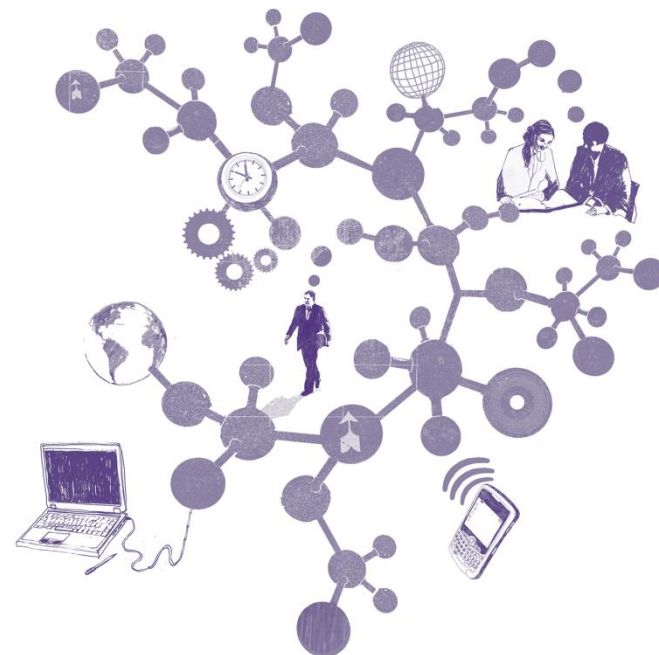
Year ended 31 March 2015

September 2015

Mark Stocks
Director
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

Harry Gabriel
Executive
T 0121 232 5339
E harry.gabriel@uk.gt.com



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

September 2015

Dear Member

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

T +44 (0)121 212 4000
www.grant-thornton.co.uk

Audit Findings for Hereford & Worcester Fire Authority for the year ending 31 March 2015

This Audit Findings report highlights the significant 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. 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. 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

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No. OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP.

A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see grant-thornton.co.uk for further details.

Contents

Section	Page
1. Executive summary	4
2. Audit findings	7
3. Value for Money	18
4. Fees, non-audit services and independence	23
5. Communication of audit matters	25
Appendices	
A Audit opinion	28
B Detailed lease disclosure adjustments	30

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 again prepared the accounts before the 30 June deadline. Working papers were good quality and officers were responsive to our questions. There are three significant changes to the accounts that we need to report to you. We anticipate being able to issue an unqualified opinion on your financial statements and an unqualified value for money conclusion.

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Hereford & Worcester Fire Authority (the Authority) financial statements for the year ended 31 March 2015. 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 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Authority's financial statements present a true and fair view of the financial position and expenditure and income 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 reach a formal conclusion on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 10 March 2015.

Our audit is substantially complete although we are finalising our work in the following areas:

- review of the final version of the financial statements;
- obtaining and reviewing the final management letter of representation;
- Whole of Government Accounts; 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 start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements.

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

- there are three adjustments which have changed a number of balances in the pre-audit accounts. These relate to reclassifying the Bromsgrove Fire Station lease from a finance to operating lease, increased provision in respect of NNDR (business rates) for GP premises, and a tribunal decision affecting lump sums paid to retired firefighters;
- the accounts were presented for audit in accordance with the agreed timetable, and were supported by good quality working papers; and
- officers have been responsive to questions throughout the audit.

The three adjustments affecting the Authority's reported financial position are recorded in section 2 of this report. The draft financial statements for the year ended 31 March 2015 recorded net expenditure on cost of services of £31,180k; the audited financial statements show net expenditure on cost of services of £31,362k. This £182k increase relates to the reclassification of Bromsgrove Fire Station as an operating lease. The revenue costs associated with this are included in Cost of Services. The changes arising from the NNDR issue do not affect services, but do affect Total Comprehensive Income and Expenditure through the "Taxation & Non-Specific Grant Income" line. Therefore, the overall affect of these two adjustments is to increase Total Comprehensive Income and Expenditure by £274k.

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

Value for Money conclusion

We are pleased to report that, based on our review of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

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

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

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.

The way forward

Matters arising from the financial statements audit and 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).

Acknowledgment

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 2015

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.

The audit was supported by management and key staff members which enabled us to conduct the audit in a timely manner and management were receptive to discussions points and dealt with matters in a proactive way.

There are three significant issues which have resulted in changes to the accounts that we need to report to you.

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit & Standards Committee on 15 April 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

There are three issues we need to report to you, as set out on page 5.

Firstly, in May 2015, the Pensions Ombudsman published his determination in a case concerning the lump sum paid to a firefighter on his retirement. The Ombudsman found that the Government Actuary Department (GAD) should have reviewed the commutation factors and ordered a new commutation factor be prepared with a payment made to the member to reflect the recalculated commutation lump sum. This finding was not communicated to FRA's until after 30 June.

These principles are the same for other retired firefighters who retired in the early 2000s and GAD has now provided revised commutation factors for the period affected (2001 – 2006) to allow the recalculation of lump sums.

The funding for the additional lump sum payments is to be met by top up grant supplied by central government, although this is yet to be confirmed for fire authorities.

Officers have concluded that this amounts to an adjusting event after the balance sheet date, and have adjusted the accounts accordingly. This has resulted in an increase in the amount payable to Firefighters on retirement of £810k, and interest

payments totalling £186k. The total expenditure of £996k has been shown as a separate item on the face of the CIES. Short term creditors increased by £996k.

Officers believe that it is virtually certain the Authority will be reimbursed through the pension top-up grant, and have therefore recognised this income in year to offset the increased cost. This is again shown on the CIES. Short term creditors increased by £996k. Appropriate disclosure around this critical judgement has been made in the accounts, and we have asked for a specific representation in the letter of representation we obtain from you.

Secondly, the draft accounts included the new Bromsgrove Fire Station as a finance lease. This meant that it was shown in the Authority accounts as if the Authority owned the asset. On the basis of the advice given to the authority by its advisors we initially agreed with this treatment. During the audit we worked with the authority to review the lease in more detail and identified with officers support that it was unclear that the risk and rewards associated with the lease substantially lay with the Authority. Officers have therefore appropriately adjusted the accounts to show the lease as an operating lease. The asset is now essentially treated as if the Authority rents it rather than owns it.

This affected the CIES by increasing Cost of Services by £182k, being the net effect of increased rental costs, but lower depreciation. The asset was removed from the Authority Balance Sheet which reduced the value of Property, Plant & Equipment by £3,244k. Long term liabilities decreased by £3,070k as the Authority no longer has the finance lease repayments to account for. The net effect overall is to reduce net assets by £138k.

Key details of the changes are shown on page 16, with full details in Appendix B, page 30.

Audit findings

Thirdly, as a result of a Valuation Office tribunal decision made in relation to a Sheffield case regarding GP surgeries in January 2015, councils have had to adjust for a post balance sheet event relating to GP surgery appeals recorded in the 2005 listing. Billing Authorities were not aware of this until mid June, and then did not make the Authority aware of the implications until 17 July.

Councils have had to recognise increased expenditure this year by increasing the provision, and hence expenditure. This affects the Authority owing to the way NNDR income and expenditure is shared between the public bodies in Herefordshire and Worcestershire.

The Authority has had to increase its provision for NNDR appeals by £150k, and reduce the income received by £136k.

Full details of the changes are shown on page 17.

In addition to these changes, officers agreed to some enhancements to disclosure notes and accounting policies. These do not affect the income and expenditure or net assets of the Authority.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 15 April 2015.

Audit opinion

Our proposed audit opinion is set out in Appendix A.

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.	Improper revenue recognition Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition	<ul style="list-style-type: none"> review and testing of revenue recognition policies testing of material revenue streams review of any unusual significant transactions 	<p>In our Audit Plan presented to you on 15 April 2015 we stated "We have considered whether the presumed risk of fraud due to improper recognition of revenue applies for the audit of Hereford and Worcester FRA. Due to the immaterial level of external non grant revenues expected to be received in 2014/15 we have concluded that the presumed risk can be rebutted for authority revenues. Contributions to the Fire fighters pension fund have also been considered. There are arrangements in place for the reconciliation of Fire fighters pension contributions which are administered by the authority's service provider for payroll and pension administration, Worcestershire County Council. We have concluded that the presumed risk can be rebutted for Fire fighters pension fund contributions."</p> <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	Management override of controls Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls	<ul style="list-style-type: none"> review of accounting estimates, judgements and decisions made by management testing of journal entries review of any unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. There were a small number of journals which were processed and approved by the same individual. We tested each of these and are satisfied that they are appropriate.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</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
Operating expenses	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding reviewed the calculation of significant accruals and other items reviewed payments after the year end tested a sample of operating expenses. 	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding tested a sample of employee remuneration payments agreed employee remuneration disclosures in the financial statements to supporting evidence reviewed the reconciliation between payroll and the general ledger 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.
Fire fighters' pensions Benefit payments	Completeness Benefits incorrectly calculated/Liability understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding tested a sample of fire fighters' pensions benefit payments agreed pension disclosures in the financial statements to supporting evidence. 	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates & 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	<p>The accounts of the FRA are maintained on an accruals basis – debtors are included in the balance sheet and CIES where services have been provided but not reimbursed at the year end (Accounting Policy 2).</p> <p>The Authority has adopted the standard revenue recognition for Local government as set out in the Code for the receipt of Government Grants (Accounting Policy 46 and 47).</p>	Our review of accounting policies identified scope for enhancement of Accounting Policy 2 – accruals of income and expenditure. The note has been extended to include different sources of income and expenditure, rather than only debtors and creditors.	 (Green)
Estimates and judgements	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> • useful life of capital equipment • pension fund valuations and settlements • revaluations • PPE valuations • recognition of additional top up grant from government in respect of the Pension Ombudsman decision in GAD v Milne 	<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, including recognising the top up grant income, has not highlighted any issues which we wish to bring to your attention.</p>	 (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 & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Directors have a reasonable expectation that the services provided by the Authority will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Directors' assessment and are satisfied with managements' assessment that the going concern basis is appropriate for the 2014/15 financial statements.	 (Green)
Other accounting policies	We have reviewed Authority's policies against the requirements of the CIPFA Code and accounting standards.	<p>Our review of accounting policies has highlighted only one issue which we wish to bring to your attention.</p> <p>Accounting policies 2 and 3 set out the policies for recognising income and expenditure. Policy 3 identifies three exceptions to the standard policy as set out below:</p> <ul style="list-style-type: none"> • Utilities (gas, telephone, electricity etc) and other annual fees, where invoices will be accounted for in the year they fall, providing that only one annual, four quarterly or twelve monthly invoices are charged in any one year. • Existing contracts for aerial sites where income will be accounted for in the year it falls providing that only one twelve monthly invoice is charged in any one year. New contracts of a material nature will be treated on a full accruals basis. • Employee expenses paid through payroll where the cut-off date for claim is 20th of the month, but where twelve months' claims will be included in the Comprehensive Income and Expenditure Statement. <p>Officers have clarified "With regard to accruing bills we include a full year each year, so we would never fall a month behind in the amount that we are stating – the only difference would be between the opening (first) bill and the final one. These bills tend to be for items such as the utility bills which are for amounts less than £500 and we do not accrue for these. There is expenditure in 2014/15 that should have been accrued to 2013/14 (and in fact this is the case for every year since the Authority was formed). The difference between the two is the impact on the 2014/15 accounts. This is unlikely to be material."</p>	 (Amber)

Assessment

 (Red) Marginal accounting policy which could potentially attract attention from regulators

 (Green) Accounting policy appropriate and disclosures sufficient

 (Amber) Accounting policy appropriate but scope for improved disclosure

Other communication requirements

We set out below details of other matters which we are required by auditing standards 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.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Authority. In particular, representations will be requested from management in respect of the significant assumptions used in making accounting estimates for the income expected from government in relation to the firefighters' pensions additional lump sum payments.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no non-trivial omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	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 deposit which they manage on behalf of the Authority.

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 page 11 above.

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

Unadjusted misstatements

We have not identified any adjustments to the financial statements which officers have declined to make.

Adjusted misstatements

A number of adjustments to the draft financial statements 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 financial statements 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 below along with the impact on the primary statements and the reported financial position.

Detail		Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1	Backdated pension commutations lump sum payable:		0	0
	• Additional expenditure	996		
	• Additional income	(996)		
	• Increase in short term debtors		996	
	• Increase in short term creditors		(996)	
2	Bromsgrove fire station changing from a finance to operating lease:			
	• Reduction in Property, Plant & Equipment		(3,244)	
	• Increase in unusable reserves		93	
	• Decrease in short term creditors		36	
	• Decrease in other long term liabilities		3,070	
	• Decrease in usable reserves		44	
	• Increase in cost of services	182		
	• Decrease in Other Operating Expenditure	(44)		
	• Increase in Total Comprehensive Income & Expenditure	138		138
	• Overall decrease in Net Assets		138	
Overall impact c/f		£138	£138	£138

Detail		Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
Overall impact b/f		£138	£138	£138
3	Increase NNDR provision: <ul style="list-style-type: none">• Decrease in short term debtors• Decrease in short term creditors• Increased provision• Increase in unusable reserves• Increase in Total Comprehensive Income & Expenditure• Overall decrease in Net Assets		(5) 19 (150) 136 136	
Overall impact		£274	£274	£274

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.

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.

Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Authority's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

The Authority has proper arrangements in place for securing financial resilience - the Authority has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Authority has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Authority's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Overall our work highlighted that the Authority continues to set prudent budgets, and again achieved an underspend, this year of £2,534k (£1,400k in 2014/15 and £2,200k in 2013/14). The underspend has been added to Earmarked Reserves. The Community Risk Management Plan (CRMP) 2014-2020 was approved in October 2014, and this confirmed changes to fire station configuration & crewing.

An updated Medium Term Financial Plan (MTFP) was approved in February 2015. This noted that the implementation of the CRMP and the improved tax-base has resulted in a balanced budget for 2015/16 and the 2016/17 gap is reduced to £300k. Looking further ahead, the MTFP shows savings still required of £1,600k in 17/18, £2,500k in 18/19 & £3,300k in 19/20. Officers have plans in place which should be sufficient to cover these gaps. In addition, the Budget Reduction Reserve now stands at £3,216k, and this will be used to support and smooth any restructuring. However, the financial position remains challenging.

The pension fund deficit continues to increase. The deficit on the funded Local Government Pension Scheme has increased in year from £6,177k to £10,018k. This deficit will be covered by employer and employee contributions. The total deficit across the three unfunded Firefighters' Schemes has increased from £289,385k to £319,766k. There is no requirement for the Authority to fund this deficit.

Challenging economy, efficiency and effectiveness

We have considered the Authority's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that 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 allow the Authority to offset approximately £1,300k of wholetime uniformed staffing costs. However, with secondees returning, there will be 46 members of staff above the budgeted level from May 2016. The MTFP sets out that officers hope to be able to continue with outward secondments, and these are forecast to deliver a £1,800k net saving for the period 2014/15 – 2016/17. In addition, the Budget Reduction Reserve of £3,216k has been built up to cover any shortfall.

The MTFP identifies £3,300k savings needed by 2019/20. This is expected to be bridged in a number of ways, including lower than budgeted pay increases, council tax growth, and savings from transformational schemes, such as the Wyre Forest blue light hub. Officers believe they have taken a prudent approach in the assumptions used, and that the actual outcome may be better than this.

The Authority is involved in Place Partnership Limited – a joint venture company with other public sector bodies – to provide estates management. Some potential savings from this new approach have been factored into the MTFP, (rising to £179k a year by 2019/20), but these are less than the Final Business Case anticipated and so there is potential for further savings.

Another initiative is "Project Arrow" which involves closer working with Warwickshire Fire and Rescue Service.

The Authority therefore has a number of projects which should, taken together, bridge the £3,300k savings needed by 2019/20. However, until these are delivered there remains a risk around delivery and officers and members will need to continue to focus on these projects and schemes to ensure the financial stability of the Authority in the longer term.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

We set out below our detailed findings against six risk areas which have been used to assess the Authority's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
Key indicators of performance	<p>Review of the value for money indicators published on the Public Sector Audit Appointments (PSAA) website shows that the net spend on services per head of population is around average compared with other Authorities. Council tax requirement is high, which reflects the level of the direct grant funding received.</p> <p>The Authority has been able to underspend against budget in recent years, and this has facilitated growth in reserves which can be used to bridge any short term funding gaps.</p>	Green
Strategic financial planning	<p>Financial planning is focussed on the long term, for example, re-organising crewing at stations to deliver savings. This is underpinned by the CRMP, which has now been agreed and is being implemented.</p> <p>MTFP assumptions are reasonable, and the budget has been achieved, with significant savings, over the last few years.</p> <p>The Authority is pursuing other avenues to achieve savings, including shared estates management through Place Partnerships Limited, closer working with Warwickshire Fire & Rescue Service, and closer working with other emergency services.</p> <p>The MTFP identifies £3,300k savings needed by 2019/20. The Authority expects this to be bridged in a number of ways, including lower than budgeted pay increases, council tax growth, and savings from transformational schemes, such as the Wyre Forest blue light hub. However, some of these are either at early stages, or outside the Authority's control. There is therefore a risk that the required savings may not be delivered. The Budget Reduction Reserve now stands at £3,216k, and this will be used to support and smooth any restructuring. However, the financial position remains challenging, and the reserve can only be used once, so should not be used to support ongoing revenue expenditure.</p>	Amber

Theme	Summary findings	RAG rating
Financial governance	The Authority has developed a financial plan which is designed to meet the long term financial challenges. It has been heavily involved in outward secondment, and is looking at increasing partnership working to reduce costs. Senior officers are acutely aware of the financial challenges, and work well together to address them. In year reporting to Members is appropriate.	Green
Financial control	The annual budget is set based on the MTFP. The budget is realistic, and has been achieved, with savings targets, in recent years. Reserves are being increased, rather than used to prop up spending. Our audit work, and that of internal audit, has not identified any issues with financial controls.	Green
Prioritising resources	The leadership team is aware of the financial position, and is taking long term steps to address the risks. These include some very difficult decisions, such as changing crewing levels and patterns and reducing the number of appliances at certain stations. The Authority has demonstrated a willingness to be forward thinking, it is also leading the way nationally in terms of outward secondments to reduce staffing levels. While the secondments have allowed the Authority to offset approximately £1,300k of wholetime uniformed staffing costs in 2015/16 with secondees returning, there will be 46 members of staff above the budgeted level from May 2016. The Authority will need to establish arrangements for redeploying these staff so that the budget is not adversely affected. The MTFP sets out that officers hope to be able to continue with outward secondments, and these are forecast to deliver a £1,800k net saving for the period 2014/15 – 2016/17. In addition, the Budget Reduction Reserve of £3,216k has been built up to cover any shortfall. However, maintaining a safe level of coverage, and thereby a safe service for the public, is the overriding aim.	Green
Improving efficiency & productivity	Service re-design is at the forefront of how the Authority is trying to reduce costs. The CRMP set out a process for reducing the number of appliances and changing the crewing pattern. Both of these have been implemented. The Authority is also involved in the property management joint venture (Place Partnership Limited), and is seeking to work more closely with Warwickshire Fire & Rescue Service and West Mercia police.	Green

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.

Fees, non-audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Authority audit	43,829	43,829
Total audit fees	43,829	43,829

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical 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

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 of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) 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 the Audit Commission (www.audit-commission.gov.uk).

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. 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 Audit Commission and includes nationally prescribed and locally determined work. 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. 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		✓
Compliance with laws and regulations		✓
Expected 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 for the year ended 31 March 2015 under the Audit Commission Act 1998. 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 Fund Account, the Net Assets Statement and the related notes 1 to 10, and Appendix 1 – Restatement of Accounts. 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 2014/15.

This report is made solely to the members of Hereford and Worcester Fire Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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 Authority 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 2014/15, and for being satisfied that they 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 also 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 explanatory foreword 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:

- give a true and fair view of the financial position of Hereford and Worcester Fire Authority as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the 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 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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 arrangements for securing economy, efficiency and effectiveness in the 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, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two 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 2015.

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 had put in place proper arrangements to secure 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 published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, Hereford and Worcester Fire Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

We certify that we have completed the audit of the financial statements of Hereford and Worcester Fire Authority in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Mark Stocks

for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT

XX September 2015

Appendix B: Detailed lease disclosure adjustments

Finance leases				
		SoA unaudited	changes	amended
	31-Mar-14	31-Mar-15	31-Mar-15	31-Mar-15
	£'000	£'000	£'000	£'000
Vehicles, Plant, Furniture and Equipment	0	3,244	(3,244)	0
	0	3,244	(3,244)	0
		SoA unaudited	changes	amended
	31-Mar-14	31-Mar-15	31-Mar-15	31-Mar-15
	£'000	£'000	£'000	£'000
Finance lease liabilities (net present value of minimum lease payments:				
Current	0	36	(36)	0
Non-current	0	3,070	(3,070)	0
Finance costs payable in future years	0	4,129	(4,129)	0
	0	7,235	(7,235)	0
		SoA unaudited	changes	amended
	Minimum Lease Payments	Minimum Lease Payments	Minimum Lease Payments	Minimum Lease Payments
	31-Mar-14	31-Mar-15	31-Mar-15	31-Mar-15
	£'000	£'000	£'000	£'000
Not later than one year	0	249	(249)	0
Later than one year and not later than 5 years	0	998	(998)	0
Later than 5 years	0	5,988	(5,988)	0
	0	7,235	(7,235)	0

Finance leases (continued)				
		SoA unaudited	changes	amended
	Finance Lease Liabilities	Finance Lease Liabilities	Finance Lease Liabilities	Finance Lease Liabilities
	31-Mar-14	31-Mar-15	31-Mar-15	31-Mar-15
	£'000	£'000	£'000	£'000
Not later than one year	0	36	(36)	0
Later than one year and not later than 5 years	0	167	(167)	0
Later than 5 years	0	2,903	(2,903)	0
	0	3,106	(3,106)	0
Operating Leases		SoA unaudited	changes	amended
	31-Mar-14	31-Mar-15	31-Mar-15	31-Mar-15
	£'000	£'000	£'000	£'000
Not later than one year	24	75	249	324
Later than one year and not later than 5 years	49	201	998	1,199
Later than 5 years	0	0	5,988	5,988
	73	276	7,235	7,511



© 2015 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk