Annual Audit Letter

Year ending 31 March 2018

Hereford and Worcester Fire Authority

August 2018

Contents

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Executive Summary

Purpose
Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Hereford and Worcester Fire Authority (the Authority) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Authority and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Authority's Audit & Standards Committee as those charged with governance in our Audit Findings Report on 25 July.

Respective responsibilities
We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Authority's financial statements (section two)
- assess the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Authority's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality to be £0.629m, which equated to 2% of your forecast gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial was set at £31k. We also set a separate lower materiality level for the disclosure note on senior manager's remuneration. In view of the sensitivity of this note to the reader of the accounts, we set a materiality level of £0.1m.
Financial Statements opinion	We gave an unqualified opinion on the Authority's financial statements on 25 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Authority's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Authority on 25 July 2018.
Certificate	We certify that we have completed the audit of the accounts of Hereford and Worcester Fire Authority in accordance with the requirements of the Code of Audit Practice.

Working with the Authority

An efficient audit – we delivered the accounts audit before the earlier deadline of 31 July. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your Medium Term Financial Plan. We highlighted the need for detailed long terms plans to address the residual deficit. In the long term, use of reserves to achieve breakeven is not sustainable and the Authority needs to consider how to get to a recurrent breakeven budget over time.

Providing training – we provided your finance team with training on financial accounts.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Authority's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality
In our audit of the Authority's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality to be £0.629m, which equated to 2% of your forecast gross expenditure for the year. We used this benchmark as, in our view, users of the Authority's financial statements are most interested in where the Authority has spent its revenue in the year. We are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. Clearly trivial was set at £31k. We set a separate lower materiality level for the disclosure note on senior manager’s remuneration. In view of the sensitivity of this note to the reader of the accounts, we have set a materiality level of £0.1m.

The scope of our audit
Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts, the narrative report and annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Authority and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.	As part of our audit work we: • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness • obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness • evaluated the rationale for any changes in accounting policies or significant unusual transactions.	Our audit work did not identify any issues in respect of management override of controls
Valuation of pension fund net liability The Authority's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	As part of our audit work we: • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement • evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation was carried out • undertook procedures to confirm the reasonableness of the actuarial assumptions made • checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.	The Authority amended the brought forward liability and asset figure to correctly include the amounts in respect of Place Partnership Limited (PPL). Owing to the agreed arrangements for the PPL pension liability, the liability is matched by an equal asset. Hence, there was no overall impact on the underlying deficit. Our audit work did not identify any issues in respect of the pension fund net liability.

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Authority's financial statements on 25 July 2018, in advance of the national deadline.

Preparation of the accounts

The Authority presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Authority's Audit and Governance Committee on 25 July 2018. There were no adjustments to any of your primary statements, but officers made a number of minor amendments and also amended the brought forward figures for the Place Partnership Limited (PPL) pension fund asset and liability.

Annual Governance Statement and Narrative Report

We are required to review the Authority's Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Authority and with our knowledge of the Authority.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Hereford and Worcester Fire Authority in accordance with the requirements of the Code of Audit Practice.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risk we identified and the work we performed is set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risk

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial sustainability The latest Medium Term Financial Plan (MTFP) was approved in February. This reported that, with use of reserves totalling £4.5m, there is a balanced budget to 2021/22. Indicative projections for 2022/23 and 2023/24 show deficits of £697k and £616k respectively. As a consequence it is estimated that the Authority will need to identify further on-going annual savings of around £700k by 2022/23. We will: a) examine the savings plans and efficiencies in the MTFP which have been identified to achieve the forecasts; b) update our understanding of the main schemes to ensure they remain robust and realistic; c) look at the plans to address the longer term shortfall to ensure plans to return to a recurrent break even position from 2022/23 onwards are realistic.	As part of our work we have: reviewed progress on the schemes to relocate HQ to Hindlip and let Kings Court to an NHS body (£0.24m pa saving); Crewing Changes (forecast to save £0.25m pa from 2020/21); and sharing fire control (£0.3m pa from 2021/22). We concluded that the forecast savings from the move to Hindlip are realistic and the project is on track. The forecast savings from the changes to crewing patterns are slightly reduced, but still reasonable. We noted that there were risks around introducing this, particularly with those Firefighters who vote against the proposal. However, the Authority is clear that crewing needs to change in order to deliver efficiencies, while maintaining service to communities. In the event, Firefighters voted against the proposed changes, and Officers have made savings in different ways. On Fire Control, the savings from this project are realistic and achievable, but again they are not within the Authority's control as they are dependent upon Shropshire & Wrekin Fire Authority joining in, and there are far more risks and challenges to them than Hereford & Worcester. If all of the current schemes realise the savings forecast and Council Tax is increased as planned, the MTFP approved in February 2018 showed the Authority will still be faced with a recurring deficit of around £0.6m a year from 2022/23, with no further reserves to fall back on. The final outturn position for 2017/18 shows an under spending, against the Net Budget, of £1.362m. The MTFP has been updated and presented to the Full Authority on 30 May, and shows that the lease of HQ generates additional income and use of 2017/18 savings means that use of the Budget Reduction Reserve from 2019/20 to 2023/24 totals £3m and leaves £0.374m remaining in order to ensure a balanced financial position. There remains an underlying deficit of around £0.3m beyond 2023/24. While this is six years away, many schemes take several years to come to fruition, and those easiest to deliver will have already been implemented. While this situation is no different to many other public sector bodies, the Authority does need to identify how a sustainable, long term, balanced budget can be achieved.	The MTFP approved in May 2018 identifies that, with use of reserves, there is a balanced budget to 2023/24. There is an ongoing underlying deficit of around £0.3m after this date. While this is a comparatively sound financial position, the Authority does need to identify how a sustainable, long term, balanced budget can be achieved. We concluded that the Authority has proper arrangements to plan finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	April 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees for non-audit services

Service	Fees £
Audit related services - None	Nil
Non-Audit related services - None	Nil

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Authority audit	32,872	32,872	32,872
Total fees	**32,872**	**32,872**	**32,872**

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

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