

The Audit Plan for Hereford and Worcester Fire and Rescue Authority

Year ended 31 March 2016

March 2016

Mark Stocks

Audit Partner

T 0121 232 5437

E mark.c.stocks@uk.gt.com

Neil Preece

Audit Manager

T 0121 232 5292

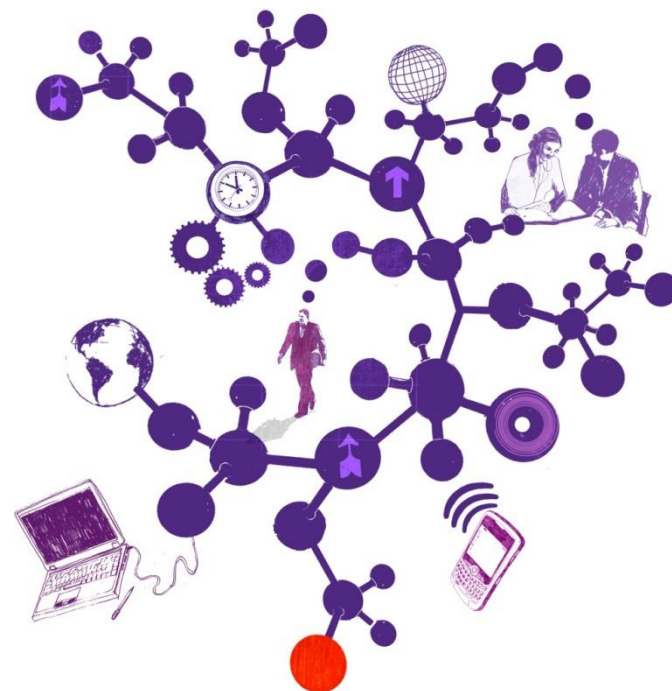
E neil.a.preece@uk.gt.com

Harry Gabriel

In-Charge Auditor

T 0121 232 5339

E harry.gabriel@uk.gt.com



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

Grant Thornton UK LLP
Colmore Plaza
20 Colmore Circus
Birmingham
B46AT
T +44 (0) 121 212 4000
www.grant-thornton.co.uk

11 March 2016

Dear Members of the Audit and Standards Committee

Audit Plan for Hereford and Worcester Fire and Rescue Authority for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case Hereford and Worcester Fire and Rescue Authority, the Audit and Standards Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Authority and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Fire Authority's financial statements
- satisfy ourselves the Fire Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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.

Yours sincerely

Mark Stocks

Audit Partner

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. Understanding your business	3
2. Developments relevant to your business and the audit	4
3. Our audit approach	5
4. Materiality	6
5. Significant risks identified	7
6. Other risks	8
7. Results of interim work	9-10
8. Value for Money	11-13
9. Key Dates	14
10. Fees and independence	15
11. Communication of audit matters with those charged with governance	16

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Authority is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.

2. Blue light collaboration

- Responses to the Government's consultation paper 'Enabling closer working between the emergency services' from September 2015 are under review.
- It was announced on 5 January that responsibility for fire and rescue policy will transfer to the Home Office from CLG, in order to support this transformation.
- This change has taken place against a greater backdrop of joint working, including with ambulance and other services.
- With the support of a £2.38 million award from the Government's Transformation Fund, officers developed a proposal to create a new purpose built, multi-agency 'Blue Light' Hub to serve the Wyre Forest area to replace the three current fire stations.
- Officers will report to the Fire Authority on 16th June 2016 for approval of a preferred site, prior to the second phase of public consultation. Following consultation, the Fire Authority will be recommended to make a final decision on the chosen site.

3. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require local government bodies to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.



Our response

- We will consider your plans as part of the local devolution agenda as part of our work in reaching our VFM conclusion.
- We are able to provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.

- We will monitor the impact of the changes from the Authority's perspective for our VFM conclusion.
- We will share our knowledge of how other Authorities are responding to these changes.

- We will work with you to identify areas of your accounts production where you can share in good practice with other authorities.
- We aim to complete all substantive work in our audit of your financial statements, and have an agreed Audit Findings Report, by 31 August 2016 as part of a phased approach to meeting the new deadlines.

Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.



2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.



3. Joint arrangements

- There are increasing numbers of pooled budget arrangements and alternative delivery models which need to be appropriately accounted for in financial statements. The Authority is a partner in Place Partnership Limited (PPL).



3. Financial Pressures

- The outcome from the Local Government Finance settlement was broadly as per the MTFP, but more front loaded, meaning additional savings have to be made in the earlier years, which total £1.096m.
- The updated MTFP shows final budget gaps as: 2016/17 £41k; 2017/18 £393k; 2018/19 £1,363k; 2019/20 £2,166k.
- The forecast gap was £3.346m by 2019/20, which is now reduced to £2.166m.



Our response

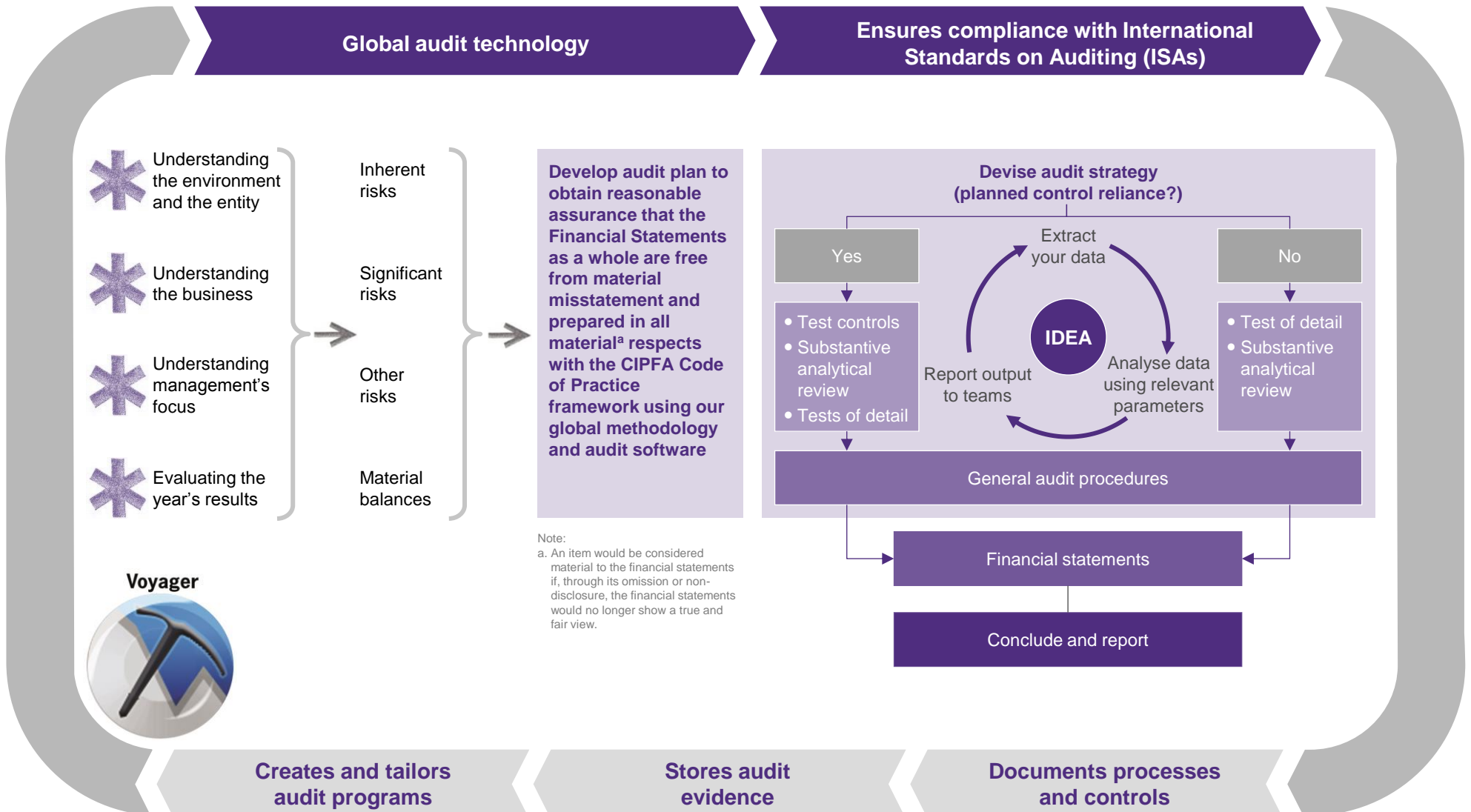
- We will keep the Authority informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We will discuss this with you at an early stage, including reviewing the basis of valuation of any surplus assets and investment property, assets to ensure they are valued on the correct basis.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Authority and the requirements of CIPFA guidance.

- We have reviewed your proposals for accounting for PPL against the requirements of the CIPFA Code of Practice, and have agreed an appropriate treatment with you.

- We will review the Authority's performance against the 2015/16 budget, including consideration of performance against the savings plan as part of our work on the Value for Money conclusion.

Our audit approach



Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Authority. For purposes of planning the audit we have determined overall materiality to be £645k (being 1.8% of gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors 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 accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £12.9k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Authority affect the balance and it is therefore considered to be material by nature. We will apply a lower materiality figure of £64.5k to these disclosures.
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made. We will apply a lower materiality figure of £10k to these disclosures.
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made. We will apply a lower materiality figure of £10k to this disclosure.

Significant risks identified

'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 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	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 2015/16 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 providers for payroll and pension administration. We have concluded that the presumed risk can be rebutted for Fire fighters pension fund contributions.
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	Work planned: <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries• Review of unusual significant transactions.
Valuation of pension fund net liability	The Authority's Local Government Pension Scheme (LGPS) and Firefighters' pension fund assets and liabilities as reflected in its balance sheet represent significant estimates in the financial statements.	Work planned: <ul style="list-style-type: none">• We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.• We will review the competence, expertise and objectivity of the actuaries who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out.• We will undertake procedures to confirm the reasonableness of the actuarial assumptions made.• We will review the consistency of the pension fund assets and liabilities and disclosures in notes to the financial statements with the actuarial reports from your actuaries.

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Completeness: Creditors understated or not recorded in the correct period	We have documented the processes and controls in place around the accounting for Operating expenses and carried out walkthrough tests to confirm the operation of controls.	Tests of detail on operating expenses included in the financial statements including: <ul style="list-style-type: none"> Review of calculation of significant accruals and other items Review of payments after the year end Testing a sample of operating expenses.
Employee remuneration	Completeness: Employee remuneration accruals understated	We have documented the processes and controls in place around the accounting for Employee remuneration and carried out walkthrough tests to confirm the operation of controls.	Tests of detail on employee remuneration including: <ul style="list-style-type: none"> Testing a sample of employee remuneration payments Agreement of employee remuneration disclosures in the financial statements to supporting evidence Review of the reconciliation between payroll and the general ledger Agreement of employee remuneration accrual in the financial statements to supporting evidence.
Fire fighters' pensions benefit payments	Completeness: Benefits incorrectly calculated/Liability understated.	We have documented the processes and controls in place around the accounting for Fire fighters' pensions benefit payments and carried out walkthrough tests to confirm operation of controls.	We will undertake tests of detail on Fire fighters' pensions benefit payments including: <ul style="list-style-type: none"> Testing on a sample of fire fighters' pensions benefit payments Agreement of pension disclosures in the financial statements to supporting evidence Substantive analytical procedures on the total pensions liability to ensure completeness of liability.

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have:

- considered the effectiveness of the Internal Audit function
- considered Internal Audit's work on the Authority's key financial systems
- undertaken walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- undertaken early substantive testing of Employee remuneration and Operating expenses.

	Work performed	Conclusion/ Summary
Internal audit	<p>We have undertaken a high level review of Internal Audit's overall arrangements.</p> <p>We have reviewed Internal Audit's work on the Authority's key financial systems to date.</p>	<p>Overall, we have concluded that the Internal Audit service continues to provide an independent service to the Authority.</p> <p>We can take assurance from Internal Audit work in contributing positively to the internal control environment and overall governance arrangements at the Authority.</p> <p>Our review to date of Internal Audit work has not identified any weaknesses which impact on our audit approach or any issues which we wish to bring to your attention.</p>
Walkthrough testing	<p>Walkthrough tests in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements for the following were completed at our interim site visit:</p> <ul style="list-style-type: none">• Employee remuneration – completeness• Operating expenses – completeness• Fire fighters' pension benefits payments – completeness	<p>From the work completed to date our work has not identified any weaknesses which impact on our audit approach.</p>

Results of interim audit work (continued)

	Work performed	Conclusion/ Summary
Journal entry controls	We have reviewed the Authority's journal entry policies as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Authority's control environment or financial statements. We have also reviewed the Authority's journal entry procedures and we have not identified any procedures that would adversely impact on the Authority's control environment or financial statements.	From the work completed to date our work has not identified any weaknesses which impact on our audit approach.
Early substantive testing	<p>We have commenced our testing in the areas of:</p> <ul style="list-style-type: none">• Employee Remuneration• Operating Expenses• Other Revenues• Journals <p>Samples of transactions from each of these areas have been selected from the period April 2015 to January 2016 and will be tested before our post statements work begins.</p>	From the work completed to date our work has not identified any weaknesses which impact on our audit approach.

Value for Money

Background

The Local Audit & Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') require us to consider whether 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.

The National Audit Office (NAO) issued its guidance for auditors on value for money work in November 2015 [here](#).

The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Authority has put proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

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

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none">• Acting in the public interest, through demonstrating and applying the principles and values of good governance• Understanding and using appropriate cost and performance information to support informed decision making and performance management• Reliable and timely financial reporting that supports the delivery of strategic priorities• Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	<ul style="list-style-type: none">• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions• Managing assets effectively to support the delivery of strategic priorities• Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none">• Working with third parties effectively to deliver strategic priorities• Commissioning services effectively to support the delivery of strategic priorities• Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We completed an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Authority, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. The NAO's Code of Audit Practice defines 'significant' as follows:

A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects. A significant risk can include areas where an auditor requires more information to confirm their conclusion.

We have identified two significant risks from our initial risk assessment. These are areas where we need additional information. We have detailed these on the next page.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

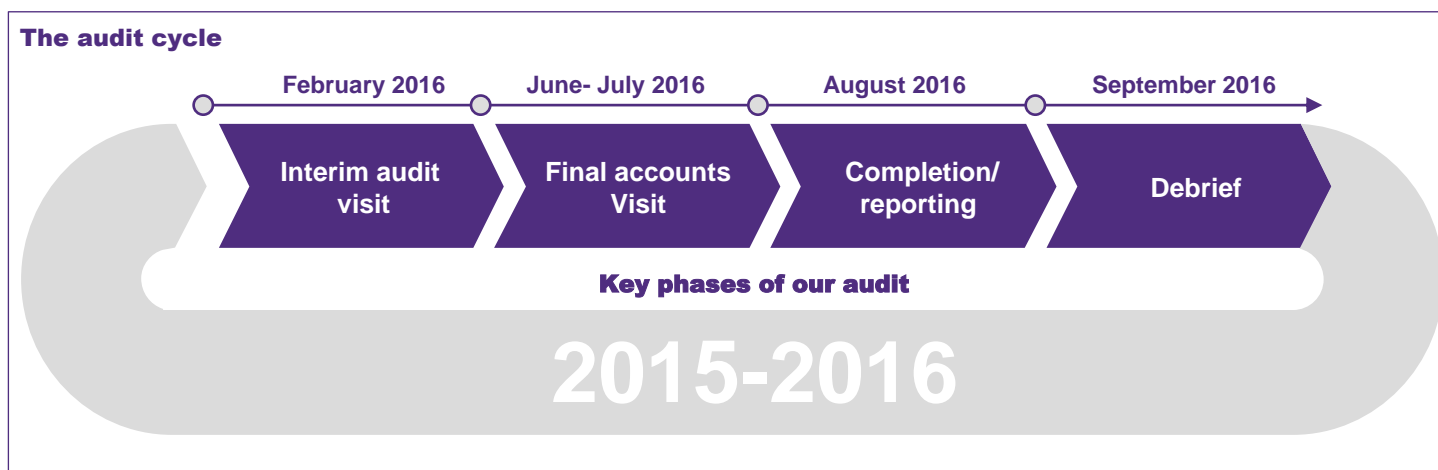
Significant risks	Link to sub-criteria	Work proposed to address
Excess staff The Authority has been forward thinking in temporarily reducing the workforce, and therefore wholetime pay budget, by seconding staff to other Authorities. For the 2015/16 financial year, the secondments allow the Authority to offset approximately £1,300k of wholetime uniformed staffing costs. With additional staff now being seconded and some staff transferring permanently as well as other unplanned leavers, the financial risk of returning staff is reduced. The Authority also has a reserve to mitigate this. However, there is still a financial risk around this.	This links to the Authority's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.	We will review the project management and risk assurance frameworks established by the Authority to establish how it is identifying, managing and monitoring these risks.
MTFP gap The Authority recently approved an updated MTFP. This confirmed that final budget gaps will be: 2016/17 £41k; 2017/18 £393k; 2018/19 £1,363k; 2019/20 £2,166k. The forecast gap in the previous MTFP was £3.346m by 2019/20, so has come down by £1.2m. However, the gap is still significant for the Authority.	This links to the Authority's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.	We will review the project management and risk assurance frameworks established by the Authority in respect of the more significant projects, to establish how the Authority is identifying, managing and monitoring these risks.

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and Annual Audit Letter.

We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

Key dates



Date	Activity
February 2016	Planning site visit
March – April 2016	Interim Site Visit and Presentation of Audit Plan to Audit and Standards Committee
June – July 2016	Year end fieldwork
TBC	Audit findings clearance meeting with the Director of Finance & Assets (Treasurer)
27 September 2016	Report audit findings to the Audit and Standards Committee
By 30 September 2016	Sign report on financial statements and Value for Money conclusion
November 2016	Issue Annual Audit letter

Fees and independence

Fees

	£
Authority audit	32,872
Total	32,872

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Authority and its activities have not changed significantly
- The Authority will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 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 Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Authority.

Respective responsibilities

This plan 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 issue 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 the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



© 2016 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