

# The Audit Plan for Hereford and Worcester Fire and Rescue Authority

**Year ended 31 March 2015**

10 March 2015

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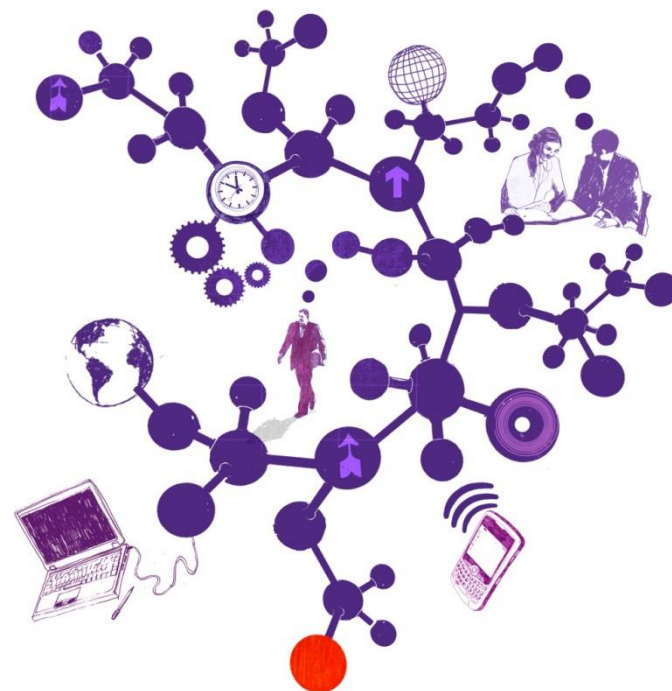
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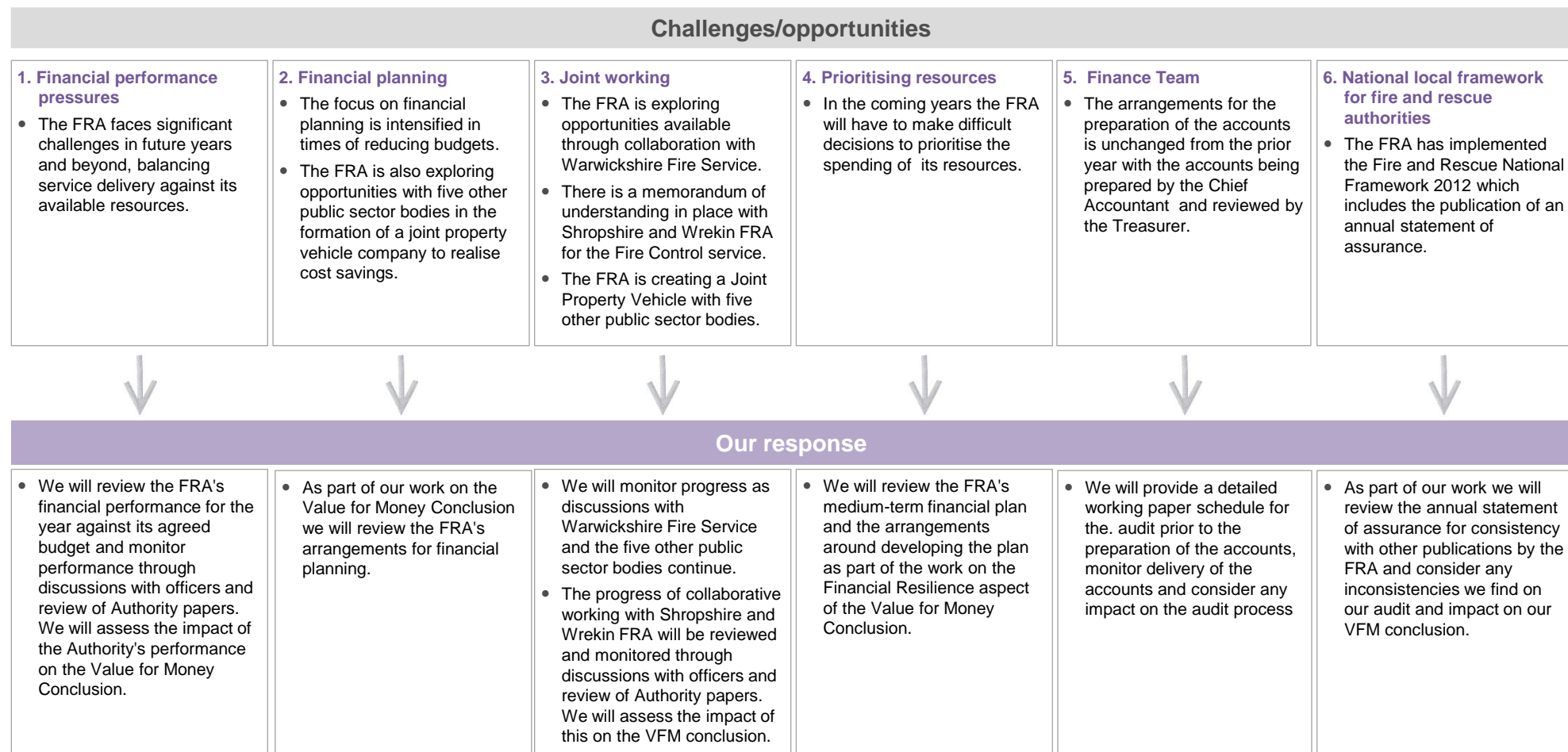
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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. Whilst recognising there have not been any significant changes from last year, we set out a summary of our understanding below.



# Developments relevant to your business and the 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. Whilst recognising there have not been any significant changes from last year, we set out a summary of our understanding below.

## Developments and other requirements

<b>1. Financial reporting</b> <ul style="list-style-type: none"> <li>• Changes to the CIPFA Code of Practice for 2014/15, including those related to pension cost disclosures</li> <li>• Clarification of Code requirements in 2014/15 for the determination of the net defined benefit liability (asset)</li> <li>• The presentation of financial statements to reflect the amendments to IAS 1.</li> </ul>	<b>2. Financial pressures</b> <ul style="list-style-type: none"> <li>• Local Government Finance settlement</li> <li>• Progress against savings plans.</li> </ul>	<b>3. The efficiency agenda</b> <ul style="list-style-type: none"> <li>• Reductions in central government funding continue to have an impact on fire authorities and on local government</li> <li>• The Sir Ken Knight review was reported in May 2013 highlighting the drive for efficiency within the fire service.</li> </ul>	<b>4. Pensions</b> <ul style="list-style-type: none"> <li>• The requirement for auto enrolment commenced during 2013/14 and significant structural changes (i.e. introduction of career weighted average) for the Local Government pension Scheme (LGPS) will come into force in 2014/15</li> <li>• Changes to the Firefighters' pension are due to be implemented from April 2015.</li> </ul>	<b>5. Corporate Governance</b> <p>As in previous years the Authority is required to summarise the operation of its system of internal control in its Annual Governance Statement (AGS) and include an Explanatory foreword in its accounts.</p>	<b>6. Other requirements</b> <ul style="list-style-type: none"> <li>• The Authority is required to submit a Whole of Government accounts pack on which we provide an audit opinion .</li> </ul>
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## Our response

<p>As part of our work on the financial statements, through discussions with management and through our audit testing we will:</p> <ul style="list-style-type: none"> <li>• ensure the Authority materially complies with the requirements of the CIPFA Code of Practice</li> <li>• review the process for ensuring valuations are materially correct and comply with the CIPFA Code of Practice .</li> </ul>	<p>We will review the Authority's performance against the 2014/15 budget, including consideration of performance against the savings plan as part of our work on the Value for Money conclusion.</p>	<p>We will review the Authority's progress in identifying and delivering efficiencies as part of our work on the Value for Money conclusion.</p>	<p>We will discuss:</p> <ul style="list-style-type: none"> <li>• How the Authority dealt with the impact of the 2013/14 changes and has planned for the 2014/15 changes through our meetings with senior management</li> <li>• How the authority plans to meet the requirement to determine the net benefit liability (asset) between the formal actuarial valuations every four years.</li> </ul>	<p>We will review:</p> <ul style="list-style-type: none"> <li>• the arrangements the Authority has in place for the production of the AGS</li> <li>• the AGS and the explanatory foreword to consider whether they are consistent with our knowledge.</li> </ul>	<p>We will undertake our work in accordance with requirements in line with the prescribed timetable.</p>
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# Our audit approach

## Global audit technology

## Ensures compliance with International Standards on Auditing (ISAs)

\* Understanding the environment and the entity

\* Understanding the business

\* Understanding management's focus

\* Evaluating the year's results

Inherent risks

Significant risks

Other risks

Material balances

**Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material<sup>a</sup> respects with the CIPFA Code of Practice framework using our global methodology and audit software**

Note:

a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

### Devise audit strategy (planned control reliance?)

Yes

- Test controls
- Substantive analytical review
- Tests of detail

Extract your data

Report output to teams

Analyse data using relevant parameters

No

- Test of detail
- Substantive analytical review

General audit procedures

Financial statements

Conclude and report

IDEA

**Creates and tailors audit programs**

**Stores audit evidence**

**Documents processes and controls**

**Voyager**



# 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 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.
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.	<b>Work planned:</b> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgments and decisions made by management</li><li>• Testing of journal entries</li><li>• Review of unusual significant transactions</li></ul>

# 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 correct period	<ul style="list-style-type: none"> <li>We have documented the processes and controls in place around the accounting for Operating expenses and carried out walkthrough tests to confirm operation of controls.</li> </ul>	Tests of detail on operating expenses included in the financial statements including: <ul style="list-style-type: none"> <li>Review of calculation of significant accruals and other items</li> <li>Review of payments after the year end</li> <li>Testing a sample of operating expenses.</li> </ul>
Employee remuneration	Completeness Employee remuneration accruals understated	<ul style="list-style-type: none"> <li>We have documented the processes and controls in place around the accounting for Employee remuneration and carried out walkthrough tests to confirm operation of controls.</li> </ul>	Tests of detail on employee remuneration including: <ul style="list-style-type: none"> <li>Testing a sample of employee remuneration payments</li> <li>Agreement of employee remuneration disclosures in the financial statements to supporting evidence</li> <li>Review of the reconciliation between payroll and the general ledger</li> <li>Agreement of employee remuneration accrual in the financial statements to supporting evidence.</li> </ul>
Fire fighters' pensions Benefit payments	Completeness Benefits incorrectly calculated/Liability understated	<ul style="list-style-type: none"> <li>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.</li> </ul>	Tests of detail on Fire fighters' pensions benefit payments including: <ul style="list-style-type: none"> <li>Testing on a sample of fire fighters' pensions benefit payments</li> <li>Agreement of pension disclosures in the financial statements to supporting evidence.</li> </ul>

# 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"><li>• Employee remuneration – completeness</li><li>• Operating expenses – completeness</li><li>• Fire fighters' pension benefits payments – completeness</li></ul>	<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
<b>Journal entry controls</b>	<p>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.</p>	<p>From the work completed to date our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Early substantive testing</b>	<p>We have commenced our testing in the areas of:</p> <ul style="list-style-type: none"><li>• Employee Remuneration</li><li>• Operating Expenses.</li><li>• Journals</li></ul> <p>Samples of transactions from each of these areas have been selected from the period April 2014 to January 2015 and will be tested on the next site visit.</p>	<p>From the work completed to date our work has not identified any weaknesses which impact on our audit approach.</p>

# Value for money

## Value for money

The Code requires us to issue a conclusion on 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.

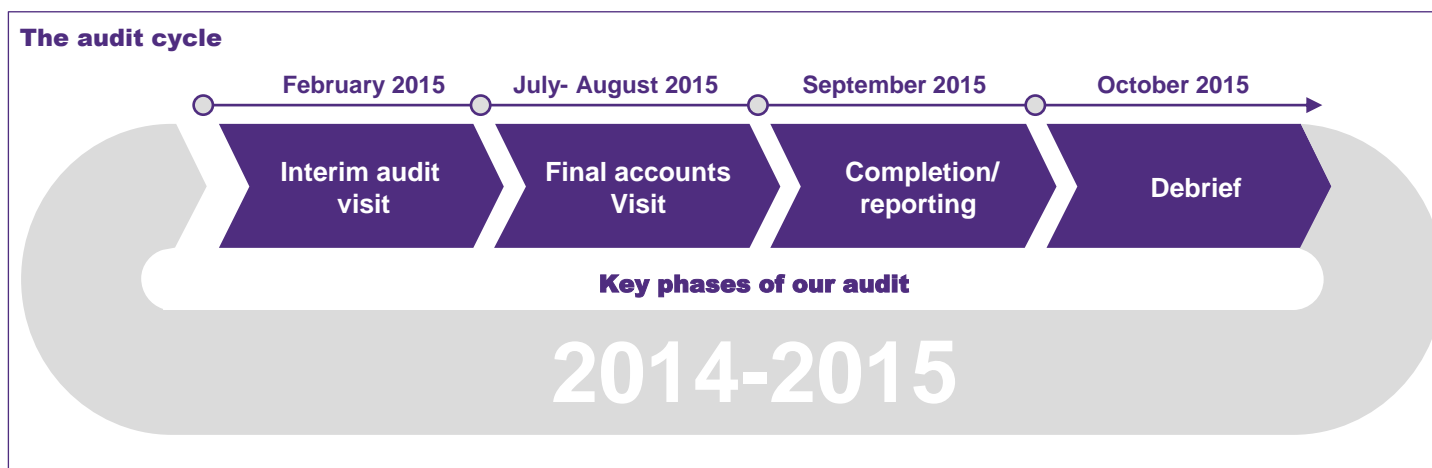
Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We have not identified any need to undertake any specific local reviews to support our VFM conclusion. However, given the financial pressures facing many public sector bodies, we will review your medium term financial plan and savings plans. We will continue to update our risk assessment during our audit.

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

# Key dates



Date	Activity
December 2014	Planning meeting
February 2015	Planning site visit
April 2015	Interim Site Visit and Presentation of Audit Plan to Audit and Standards Committee
July – August 2015	Year end fieldwork
September 2015	Audit findings clearance meeting with Treasurer
September 2015	Report audit findings to the Audit and Standards Committee
September 2015	Sign report on financial statements and Value for Money conclusion
October 2015	Issue Annual Audit letter

# Fees and independence

## Fees

	£
Authority audit	43,829
<b>Total</b>	<b>43,829</b>

## 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](http://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		✓



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