The Audit Findings for Hereford & Worcester Fire Authority

Year ended 31 March 2022

16 November 2023

Contents

Your key Grant Thornton team members are:

Avtar Sohal
Key Audit Partner
T 0121 232 5420
E Avtar.S.Sohal@uk.gt.com

Neil Preece
Manager
T 0121 232 5292
E Neil.A.Preece@uk.gt.com

Harvinder Panesar
Associate
T 0121 232 5442
E Harvinder.K.Panesar@uk.gt.com

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 planning 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 all 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.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

Avtar Sohal

Avtar Sohal
For Grant Thornton UK LLP
Date : 16 November 2023

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Hereford & Worcester Fire Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Authority's financial statements give a true and fair view of the financial position of the Authority and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed on site and remotely during September-December. Our findings are summarised on pages 5 to 17. There is one adjustment to the financial statements that has resulted in adjustments to the Authority's Comprehensive Income and Expenditure Statement. This is set out below. Audit adjustments are detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.

A number of figures in the financial statements have been amended owing to an error in the pension figures associated with Place Partnership Limited (PPL) which Officers identified during the audit. This relates to a £237k change in employer contributions related to a change in ownership percentages of PPL. The main impact is that Net Employee Costs in the Comprehensive Income and Expenditure Account (CIES) have decreased by £237k. The Deficit on the Provision of Services has decreased by the same amount. The net pension liability shown on the Balance Sheet has decreased by £237k .

When the draft financial statements were prepared, the 2019 Local Government Pension Scheme (LGPS) triennial valuation informed key judgements and estimates underpinning the measurement of the net defined pension liability. The 2021/22 Statement of Accounts have been adjusted in all material respects to reflect the impact of the results of the 31st March 2022 LGPS triennial valuation. We are satisfied that the Authority has correctly reflected these adjustments in its financial statements.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix D] or material changes to the financial statements, subject to the following outstanding matters:

- receipt of management representation letter; and
- review of the final signed set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Authority's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We have completed our VFM work, which is summarised on page 19, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.
Significant Matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

Our audit approach was based on a thorough understanding of the Authority's business and is risk based, and in particular included:

- An evaluation of the Authority's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter our audit plan, as communicated to you on 20 July 2022.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit & Standards Committee meeting on 12 December 2023 as detailed in Appendix D. These outstanding items include:

- receipt of management representation letter; and
- review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Hereford & Worcester Fire Authority.

	Authority Amount (£)	Qualitative factors considered
Materiality for the financial statements	800,000	We have determined financial statement materiality based on 2% of the gross expenditure of the Authority for the prior financial year. In the prior year we used the same benchmark and %.
Performance materiality	600,000	We have determined performance materiality at 75% of the materiality. Our rationale is as follows: • We are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment and therefore have not reduced performance materiality • There has not historically been a large number or significant misstatements arising as a result of the financial statements audits, therefore we have not reduced performance materiality • Senior management and key reporting personnel in the finance function has remained stable from the prior year audit. • There is not a significantly increased number of accounting issues that require significant judgment compared to prior years and so it is not considered necessary to reduce performance materiality.
Trivial matters	40,000	In the context of the Authority, we concluded that an individual difference could normally be considered to be clearly trivial if it is less than £40k (5% of materiality).
Materiality for senior officers' remuneration	13,000	We have set a separate lower materiality level for the disclosure note on remuneration of individual senior managers. In view of the sensitivity of this note to the reader of the accounts, we have set a materiality level of 2% of the senior officers note. In the prior year the total of this note was £0.647m. Applying 2% gives £0.013m.

2. Financial Statements – key messages

Key messages arising from our financial statements work

- When the draft financial statements were prepared, the 2019 Local Government Pension Scheme (LGPS) triennial valuation informed key judgements and estimates underpinning the measurement of the net defined pension liability. The 2021/22 Statement of Accounts have been adjusted in all material respects to reflect the impact of the results of the 31st March 2022 LGPS triennial valuation.

- Cashflow Statement – Operating Activities – Note 131 - We identified a difference in the opening balance of Creditors as per the Cash Flow Statement working provided when compared to the Financial Statements. The figure for the Increase / Decrease in Creditors has been amended to £699k from £235k.

- Cashflow Statement – Operating Activities – Note 131 - We identified a difference in the opening balance of Debtors as per the Cash Flow Statement working provided when compared to the Financial Statements. The figure for the Increase / Decrease in Debtors has been amended to £992k from £1,456k. The debtor and creditor items net off, so that there is no change to the Cash Flow Statement itself.

- Accounting policies - Note 13 - Property, Plant and Equipment was updated to refer to 2022 and the correct RICS valuer.

- A number of figures in the financial statements have been amended owing to an error in the pension figures associated with Place Partnership Limited (PPL) which Officers identified during the audit. This relates to a £237k change in employer contributions related to a change in ownership percentages of PPL. The main impact is that Net Employee Costs in the Comprehensive Income and Expenditure Account (CIES) have decreased by £237k and so has the Deficit on the Provision of Services . The net pension liability shown on the Balance Sheet has decreased by £237k.

- Audit fees - Note 20 was amended to reflect the audit fees which have been agreed with the Authority for each year. The amount for 2019/20 was reduced for £10k to £0k, 2020/21 reduced from £6k to £4k and 2021/22 from £48k to £43k.

- Note 47 - Financial Instruments - the "Total Current Assets" figure was incorrectly included at the prior year value. It was updated subsequently updated to £17,328k. This is a disclosure change only, with no impact on the asset values themselves.

- Officers made a number of minor amendments to correct typos.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
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 therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	To address this risk we: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Findings** The journals we tested were appropriate and we found no evidence of management override of controls. Accounting estimates and critical judgements applied made by management are reasonable and not materially misstated.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Improper revenue recognition - the revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we determined that the risk of fraud arising from revenue recognition could be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Hereford & Worcester Fire Authority, mean that all forms of fraud are seen as unacceptable. Therefore we did not consider this to be a significant risk for Hereford & Worcester Fire Authority. **Findings** Our work in this area has not identified any issues that cause us to revisit our initial rebuttal.
Fraudulent expenditure recognition (rebutted) In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).	We rebutted this risk for Hereford & Worcester Fire Authority because: • expenditure is primarily related to employee costs • opportunity to manipulate contract variations is low. We therefore did not consider this to be a significant risk for Hereford & Worcester Fire Authority. We continued to review material expenditure transactions as part of our audit ensuring that it remains appropriate to rebut the risk of expenditure recognition for Hereford & Worcester Fire Authority. **Findings** Our work in this area has not identified any issues that cause us to revisit our initial rebuttal.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings The Authority revalues its land and buildings on an annual basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. Our work in this area in 2020/21 took longer than we had anticipated. This is because the valuations were completed by Place Partnership Limited, and then revisited by West Mercia Police and Crime Commissioner valuers, with some being amended. The supporting evidence for some of the valuations was not readily available and took time to obtain. When the evidence and supporting information was received we found that, for several properties, it was inconsistent with our expectations. Further challenge of the valuer work resulted in all of the property valuations being revisited. While we understand that arrangements for the valuation of land and buildings have been strengthened for 2021/22, in light of the challenges noted in the first paragraph above, we have therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	To address this risk we: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • wrote to the valuer to confirm the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they have been input correctly into the Authority's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. **Findings** There has been significant delays in completion of the audit work as a result of response times from Managements Valuer to get appropriate evidence listings and evidences to support the testing of our work. However, our testing has been completed and has not identified any material misstatements in respect to valuation of land and buildings.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£408m in the Authority's prior year balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates where, in the prior year, the actuary indicated that a 0.5% change in the discount rate assumption would have approximately £40m effect on the liability and a 0.5% change in the inflation rate (salary increase) assumption would have approximately £6.5m . We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	To address this risk we: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtained assurances from the auditor of Worcestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. **Findings** Our work in this area is complete. When the draft financial statements were prepared, the 2019 Local Government Pension Scheme (LGPS) triennial valuation informed key judgements and estimates underpinning the measurement of the net defined pension liability. The 2021/22 Statement of Accounts have been adjusted in all material respects to reflect the impact of the results of the 31st March 2022 LGPS triennial valuation. This has resulted in an additional testing by the audit team to reperform testing based on the updated triennial valuation reports and ensuring the financial statements have been appropriately updated. We are satisfied that the Authority has correctly reflected these adjustments in its financial statements.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations - £33.5m	The Authority revalues its land and buildings annually. In 2021/22 the valuation resulted in an increase in the value of land and buildings of £0.038m. The valuations were completed by West Mercia Police and Crime Commissioner valuers.	We have set out our findings in relation to the valuation of other land and buildings on page 10.	● [Light Purple]

Assessment

- ● [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
LGPS Net pension liability – £15.709m	A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2022. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. In 2021/22 the net LGPS pension liability has decreased from £19.0m to £17.8m.	We have set out our findings in relation to the net pension liability on page 11. We are satisfied that the judgements and estimates used by management in determining the pension fund asset and liability are consistent with those used by the actuary and appropriate for the Authority.	● [Light Purple]

Assumption - LGPS	Actuary Value	PwC range	Assessment
Discount rate	2.8%	2.7-2.8%	●
Pension increase rate	3.3%	3.0-3.5%	●
Salary growth	4.7%	4.25-5.0%	●
Life expectancy – Males currently aged 45 / 65	23.2 / 21.9	23.3 – 24.1 / 21.7 – 22.4	●
Life expectancy – Females currently aged 45 / 65	26 / 24.1	25.3 – 26 / 23.5 – 24.2	●

Assessment

- ● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
FFPS Net pension liability – £393.6m	A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2020. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. In 2021/22 the net pension liability has increased from £389.1m to £393.6m.	We have set out our findings in relation to the net pension liability on page 11. We are satisfied that the judgements and estimates used by management in determining the pension fund asset and liability are consistent with those used by the actuary and appropriate for the Authority.	● [Light Purple]

Assumption - FFPS	Actuary Value	PwC range	Assessment
Discount rate	2.65%	2.65%	●
Pension increase rate	3.0%	3.0%	●
Salary growth	4.75%	4.75%	●
Life expectancy – Males currently aged 45 / 65	23.2 / 21.5	23.2 – 23.8 / 21.5 – 22.1	●
Life expectancy – Females currently aged 45 / 65	23.2 / 21.5	23.2 – 25.4 / 21.5 – 23.8	●

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	• 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 issues have been identified during the course of our audit procedures.
Matters in relation to related parties	• We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	• A letter of representation has been requested from the Authority. This includes the unadjusted misstatement in relation to the timing of the LGPS asset values of £0.184m.
Confirmation requests from third parties	• We obtained direct confirmations from the PWLB for loans and from Worcestershire County Council for short term deposits which they manage on behalf of the Authority. We also obtained direct confirmation of the year end bank balance from Barclays Bank.
Accounting practices	• Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	• All information and explanations requested from management was provided. • We have not encountered any significant difficulties with accounts closedown, production of draft accounts and working papers.

2. Financial Statements - other communication requirements

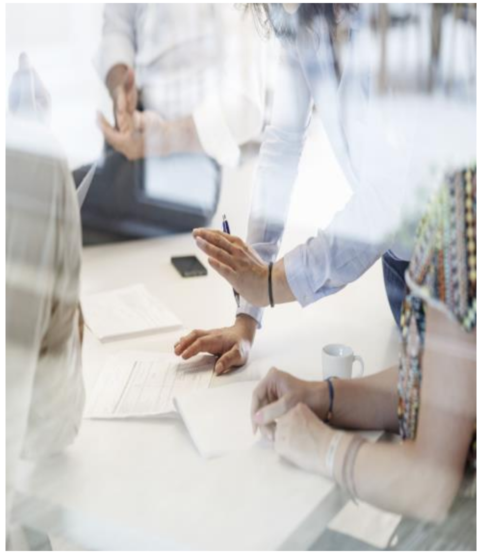
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Authority meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Authority and the environment in which it operates • the Authority's financial reporting framework • the Authority's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified, but there were two minor disclosure changes to the Narrative Report which officers have made. We plan to issue an unmodified opinion in this respect – please refer to Appendix D.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Detailed extensive work is not required as the Authority does not exceed the reporting threshold and we have not identified any issues.
Certification of the closure of the audit	We intend to certify the closure of the 2021/22 audit of Hereford & Worcester Fire Authority.



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
The Fire Authority Medium Term Financial Plan, approved in February 2022, showed "Structural Budget Gaps" of £0.238m (2022/23); £0.133m (23/24) and £0.402m (24/25) - all to be funded from reserves, primarily the Budget Reduction Reserve. This reserve will then have decreased from £1.428m to £0.779m. This is around two years at the rate of £0.400m a year. This represents a significant risk as the Authority needs to be able to balance its budget without the ongoing use of reserves.	To address this risk we reviewed the long term plans to ensure a balanced budget can be achieved without the need to use reserves.	Our work did not identify a significant weakness. We did, however, raise an Improvement Recommendation – "The Authority needs to bring forward further savings plans to address the structural budget gap and future budgetary pressures, for example, pay costs and inflation."	While there is still significant uncertainty around future funding from central government, the Authority needs to ensure that it is in a position where viable, worked up savings plans are in place to ensure long term financial sustainability, irrespective of government funding.

4. Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers and managers). In this context, we disclose the following to you:

The Audit Manager, Neil Preece, has been Manager for seven years. If the Authority was not a public sector client, the firm's policy rotation for this role is 10 years. However, in the public sector the firm requires permission for extensions to be sought after seven years. The firm's internal Ethics Function and Public Sector Audit Appointments (PSAA) have approved the extension for one year for the 21/22 audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

Other services

No other services provided by Grant Thornton were identified.

Appendices

A. Follow up of prior year recommendations

We identified the following issues in the audit of Hereford & Worcester Fire Authority's 2020/21 financial statements, which resulted in four recommendations being reported in our 2020/21 Audit Findings report. We are pleased to report that management have implemented three of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	**Property valuations** Our audit work took significantly longer than planned. This was partly due to the changeover in valuers, but also because supporting information was not readily available. There is a risk that property valuations cannot be supported. **Recommendation** The Authority needs to ensure that the external valuer obtains sufficient appropriate evidence and documentation of thought processes, readily available, to support to valuations and provide evidence to audit in a timely manner.	As in prior year we encountered a significant delay in completing the property valuations audit due to audit evidence and documentation not being readily available.
✓	**Member Data** The Member Data provided to the Government Actuary Department (GAD) for them to prepare the Fire Fighters' Pension Scheme liability estimate was out of date. Officers spent a very considerable amount of time in reconciling figures which audit then used to sample test pension deductions for new joiners. There is a risk that the pension scheme liability is misstated. **Recommendation** The Authority needs to ensure that information provided to the Government Actuary Department (GAD) is up to date, complete and accurate	The Member data provided for audit in 2021/22 was up to February 2022, which we consider to be sufficiently up to date for audit purposes.

Assessment

✓ Action completed

X Not yet addressed

A. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Fair Value of Public Work Loan Board borrowing** Our audit work identified that the Fair Value calculations for Public Works Loan Board (PWLB) borrowing did not use an approach recognized by the CIPFA Code. While this does not impact on the amount actually borrowed, it does indicate the impact that new loans would have if taken out on 31 March. **Recommendation** The Authority needs to ensure that the Fair Value of PWLB borrowing is correctly calculated. Many authorities use expert advisers to provide this information for them.	Officers have obtained appropriate valuation reports, and these have been reflected in the financial statements.
✓	**Expenditure recognition** Our audit work identified that the Authority was not consistently applying its accounting policies in terms of recognising expenditure where invoices spanned more than one financial year. While the impact in 2020/21 is immaterial, it took more audit and officer time to quantify the impact. The risk that, in future years, the impact could be material, remains. **Recommendation** The Authority needs to ensure that it consistency applies it accounting policies.	Our testing this year has not identified any invoices which are incorrectly accounted for.

Assessment

✓ Action completed

X Not yet addressed

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

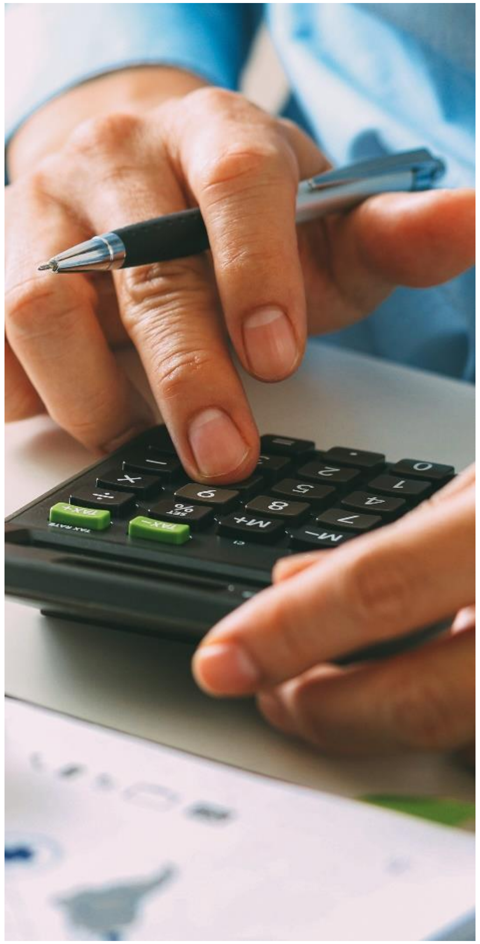
All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Amendment to employer contributions in respect of Place Partnership Limited	(237)	(237)	(237)

Misclassification and disclosure changes

We have set out on page 7 details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

B. Audit Adjustments



Impact of unadjusted misstatements

There are no unadjusted misstatements.

Impact of prior year unadjusted misstatements

There were no adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements.

C. Fees

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

Audit fees	Proposed fee	Final fee
Authority Audit	£43,362	£54,362
Total audit fees (excluding VAT)	£43,362	£54,362

We have proposed an increase of £5k in respect to the proposed fee given delays we have encountered with obtained audit assurance from managements external valuer, which has resulted in a delay on the completion of the audit. The final fee is subject to approval by PSAA.

	Final fee
Scale Fee	£25,311
Quality Review – Responding to FRC	£1,875
PPE Valuation Additional Work	£2,188
Pension Valuation	£2,188
Additional Work in respect of ISA540	£1,800
Additional Journals Testing	£2,000
Remote Audit	£2,500
VFM Commentary	£5,500
Proposed Fee	**£43,362**
Overrun costs in respect to PPE Valuation Audit	**£5,000**
Additional Work Required as a result of the Triennial Valuation	**£6,000**
Final Fee	**£54,362**

D. Audit opinion

Our audit opinion is included below.

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

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Hereford and Worcester Fire Authority (the 'Authority') for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies and include the Firefighters' Pension Fund financial statements comprising the Fund Account, the Statement of Net Assets Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Treasurer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

D. Audit opinion

In our evaluation of the Treasurer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Treasurer with respect to going concern are described in the 'Responsibilities of the Authority, Treasurer and Those Charged with Governance for the financial statements' section of this report.

Other information

The Treasurer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

D. Audit opinion

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Treasurer and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities [set out on page 13], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Treasurer. The Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Treasurer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Standards Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

D. Audit opinion

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003. We also identified the following additional regulatory frameworks in respect of the firefighters' pension fund – Fire and Rescue Services Act 2004, The Firefighters' Pension Scheme (England) Regulations 2014 and The Firefighters' Pension Scheme (England) Order 2006.
- We enquired of senior officers and the Audit and Standards Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Standards Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls, including the use of accounting estimates, assumptions and judgements, the risk of fraudulent expenditure recognition and the risk of improper revenue recognition. We determined that the principal risks were in relation to large and unusual journals which were designed to change financial performance, for example, moving amounts between the Balance Sheet and Comprehensive Income and Expenditure Statement.

Our audit procedures involved:

– evaluation of the design effectiveness of controls that the Treasurer has in place to prevent and detect fraud

– journal entry testing, with a focus on unusual journals with specific risk characteristics and large value journals

– challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of land and buildings and defined benefit pensions liability valuations; and

– assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

D. Audit opinion

- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of land and buildings and defined benefit pensions liability valuations.
- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

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

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

D. Audit opinion

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We have documented our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we have considered whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Audit certificate

We certify that we have completed the audit of Hereford and Worcester Fire Authority for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Avtar Sohal, Key Audit Partner

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

Birmingham

Date:

Grant Thornton

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