The Audit Findings for Hereford & Worcester Fire Authority

Year ended 31 March 2021

Hereford & Worcester Fire Authority

19 January 2022

Contents

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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 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

Name : Avtar Sohal
For Grant Thornton UK LLP
Date : 19 January 2022

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 2021 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's 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 remotely during July -November. Our findings are summarised on pages 2 to 17. Our property valuations audit work was particularly challenging and time consuming. Nearly all property valuations were amended to some degree. The outcome is that operational assets have been reduced in value by £5.055m and surplus assets have increased by £0.645m. This has resulted in a decrease in the revaluation reserve of £2.575m and an increase in Cost of Services of £1.835m. Where there is no revaluation reserve for a particular property as a result of previous increases in valuation, this must be taken to Cost of Services. There is no impact on the useable reserves available to the Fire Authority however.

We also identified four further adjustments to the financial statements that have resulted in a net £0.242m adjustment to the Authority's Comprehensive Income and Expenditure Statement. The effect was to reduce National Domestic Rates income (and debtor) by £0.242m. Audit adjustments are detailed in Appendix B.

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:

- completion of our testing of property valuations;
- receipt of management representation letter; and
- review of the final set of financial statements.

We have, however, made four recommendations as set out in Appendix A. 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 unmodified.

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, but will be unable to certify the completion of the audit when we give our audit opinion as the Whole of Government accounts template form and guidance is not expected until January.
Significant Matters	We did not encounter any significant difficulties 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 28 July 2021.

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 and Standards Committee Meeting on 19 January 2022, as detailed in Appendix D. These outstanding items include:

- completion of our testing of property valuations;
- 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. The impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remote access working arrangements video calling, physical verification of assets, and verifying the completeness and accuracy of information provided remotely produced by the Authority.

Avtar Sohal

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 on 28 July 2021. We detail in the table below our determination of materiality for Hereford & Worcester Fire Authority.

	Authority Amount (£m)	Qualitative factors considered
Materiality for the financial statements	0.8	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	0.6	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	0.04	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 remuneration of individual senior managers.	0.05	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 £50,000.

2. Financial Statements – key messages

Key messages arising from our financial statements work

- our audit work in relation to the valuation of property is nearly complete, but has taken significantly longer than we had planned. Our work has been more complicated and challenging owing to Place Partnership Limited (who were the Authority's property valuers) ceasing on 31 March 2021, and then being replaced by West Mercia Police and Crime Commissioner valuers. The crossover in valuers, together with a deeper degree of audit testing than in previous years, found that the evidence to support the valuations was not always readily available (such as floor areas) or thought processes explained (such as why particular Building Cost Information Service (BCIS) figures were used). Our audit testing found that in a number of cases the incorrect BCIS or regional adjustment figure had been used. The valuer has revisited all of the property valuations (land is not affected). This has resulted in operational property assets reducing in value by £5.055m and surplus assets increasing by £0.645m. The net effect is a decrease in property valuations of £4.410m. Of this, £1.835m was taken to the Cost of Services in the CIES, and £2.575m was taken to the revaluation reserve.

- due to an incorrect manual split of an account in preparation of the CIES, both gross income and gross expenditure within financing and investment income and expenditure are overstated by £371k. There is no net impact.

- our work identified an error in the Collection Fund workings of £242k. Debtors and Non Domestic Rates (NDR) income are overstated, due to transposition of two figures in workings. As a result the movement on the Collection Fund Adjustment Account is also wrong by the same amount.

- officers identified an error in the prior year treatment of the investment property revaluation, leading to a £215k correction being included in the draft accounts, as the change in value in 2019/20 was charged through Other Comprehensive Income but should have been charged to provision of services. However, we noted the correction puts the charge in cost of services, instead of in Financing and Investment income and Expenditure. While Net Cost of Services is impacted, there is no impact on expenditure overall.

- note 12 – Senior Officers' Remuneration – has been amended to correctly include Benefit in Kind and correct pension contributions for the Deputy Chief Fire Officer and Assistant Chief Fire Officer lines. An additional disclosure has been added to reflect that one officer held two of the roles disclosed due to moving from Deputy Chief Fire Officer to Assistant Chief Fire Officer during the year.

- financial instruments note 51 – officers used information on the Public Works Loan Board (PWLB) website to calculate the fair value of PWLB borrowings. However, the website states that the method of calculation is not in line with the CIPFA Code. As such the fair value of PWLB loans is misstated. This does not affect the actual amount the Authority has borrowed, but reflects the impact should new loans be taken out as at 31 March 2021. The note was also enhanced to better comply with the CIPFA Code.

- the related parties transaction disclosure has been amended to include the debtor with Place Partnership Limited (PPL) of £432k the £302k creditor accrual identified through our work on the PPL debtor.

- officers have made a number of minor changes to the financial statements to correct typographical errors and prior year comparators and to make accounting policies clearer.

- several amendments have been made to notes 122-138 (assumptions around major sources of uncertainty) in order to improve clarity and better comply with the CIPFA Code.

- our audit work identified a system control issue relating to being able to enter invoices with an incorrect date. Our work identified three invoices as part of journals testing which had mistyped dates. (One dated 2000, one December 2021 instead of December 2020, and one with 2024 as the year).

- note 34 (investment Assets) has been amended, to disclose the £422k rent free period charge for investment property. This was also amended in the CIES owing to the incorrect classification of expenditure relating to the write off of the rent free period on disposal of investment property.

- our audit work identified that information provided to the Government Actuary Department (GAD) to enable them to prepare the pension fund liability report was not up to date. Firefighter member data only included new joiners up to July 2020. While this did not have a significant impact on the valuation of the Fire Fighters' Pension Scheme deficit, it did take Officers a significant amount of time to reconcile various reports in order to provide up to date information. This information is also used for our testing to ensure that the correct payroll deductions are being made.

2. Financial Statements – key messages

Key messages arising from our financial statements work (continued)

- in undertaking our journals testing, it took several transaction listings to get to a point where we had unique transaction reference (Document file reference) which provided assurance that all transactions balanced. This caused some delays to our journals testing, including time looking at completeness of listings. This is a new audit approach for 2020/21 to further enhance the quality and robustness of our audit work around journals.

- our audit work identified a difference between debtors recorded by the Authority with Place Partnership Limited (PPL), and PPL's records per external confirmation. The difference of £62k is being resolved in an ongoing discussion between the Fire Authority and those managing PPL since it ceased trading on 31/03/2021. As this difference is yet to be resolved between the two entities we would not ask management to adjust for this, and as such are reporting this for information.

- additional testing was required on the Operating Expenditure included in the financial statements as well as year end expenditure testing to ensure that items are recorded in the correct financial year. As part of testing of operating expenditure (running costs) we identified an invoice received on 20/4/21 which was accounted for in 20/21, but related wholly to 19/20. In accordance with accounting policy 4 this should have been accrued in 19/20. We have performed additional testing, and not found any further items relating to 19/20. The extrapolated error from this issue is £141,979, however as this is just an extrapolation this is not the actual misstatement, and as such we would not ask the Authority to adjust for this amount.

- as part of testing of operating expenditure (running costs) we identified issues with inconsistent application of accounting policy 3, which states that annual charges shall be accounted for wholly in the year the invoice is received. However, from testing we have seen that this policy is not being consistently applied. We have performed additional testing of prepayments and identified two invoices for which the period spans both 20/21 and 21/22 financial years, but which were accounted for wholly in 20/21 in line with the policy. However, the corresponding invoices from 19/20 were not treated in line with the policy, and so a prepayment was made at 19/20 year end. As a result, more than 12 months worth of expenditure for these items is recorded in 20/21. We also noted one error from a 19/20 prepayment which was miscalculated. The extrapolated error from these issues is £99,723. However as this is just an extrapolation this is not the actual misstatement, and as such we would not ask the authority to adjust for this amount. The Authority is not consistently applying its accounting policy in regard to expenditure recognition.

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.
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 have determined that the risk of fraud arising from revenue recognition can 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 do 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.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Fraudulent expenditure recognition (rebutted) Practice Note 10 states that as most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition.	We have 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 do 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.
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. We 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** Our work in this area is ongoing, and 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. As noted on page 7, 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. The value of operational property assets reduced in value by £5.055m and surplus assets increased by £0.645m. The net effect is a decrease in property valuations of £4.410m. Of this, £1.835m was taken to the Cost of Services in the CIES, and £2.575m was taken to the revaluation reserve.

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 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 the actuary has 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 performed 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, and we are satisfied that the pension fund net liability is complete and not materially misstated. However, as noted on page 7, the information provided to the Government Actuary Department (GAD) was not up to date.

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 - £38.5m	The Authority revalues its land and buildings annually. In 2020/21 the valuation initially resulted in a decrease in the value of land and buildings of £2.434m. The valuations were initially completed by Place Partnership Limited, and then revisited by West Mercia Police and Crime Commissioner valuers, with some being amended. The final valuations show a further decrease of £5.055m.	We have set out our findings in relation to the valuation of other land and buildings on page 10. We are satisfied that the judgements and estimates used by management in determining the value of other land and buildings are appropriate for the Authority. However, management needs to ensure that information to support the valuations is readily available and appropriate. We have made a recommendation as set out on page 22.	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

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr><td>Net pension liability – £408.1m</td><td>A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. 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 2020/21 the net pension liability has increased from £377.5m to £408.1m.</td><td>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.

<table>
<tr><th>Assumption - LGPS</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>2.1%</td><td>2.1-2.2%</td><td></td></tr>
<tr><td>Pension increase rate</td><td>2.8%</td><td>2.8%</td><td></td></tr>
<tr><td>Salary growth</td><td>4.2%</td><td>CPI (2.7%) + 1.25-1.5%</td><td></td></tr>
<tr><td>Life expectancy – Males currently aged 45 / 65</td><td>24.4 / 22.7</td><td>22.5-24.7 / 20.9-23.2</td><td></td></tr>
<tr><td>Life expectancy – Females currently aged 45 / 65</td><td>27.1 / 25.1</td><td>25.9-27.7 / 24.0-25.8</td><td></td></tr>
</table>
</td><td>Light Purple</td></tr>
</table>

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
Net pension liability – £408.1m	A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. 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 2020/21 the net pension liability has increased from £377.5m to £408.1m.	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	2.0%	2.0%	●
Pension increase rate	2.4%	2.4%	●
Salary growth	4.15%	4.15%	●
Life expectancy – Males currently aged 45 / 65	23.1 / 21.4	23.1-23.7 / 21.4-22.0	●
Life expectancy – Females currently aged 45 / 65	23.1 / 21.4	23.1-25.3 / 21.4 – 23.7	●

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. As noted on page 7, there was an omission in relation to the debtor of £432k and creditor of £302k with Place Partnership Limited, which has now been included.
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 standard letter of representation has been requested from the Authority.
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. However, this took three months, and a number of follow up requests to Barclays, to obtain.
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

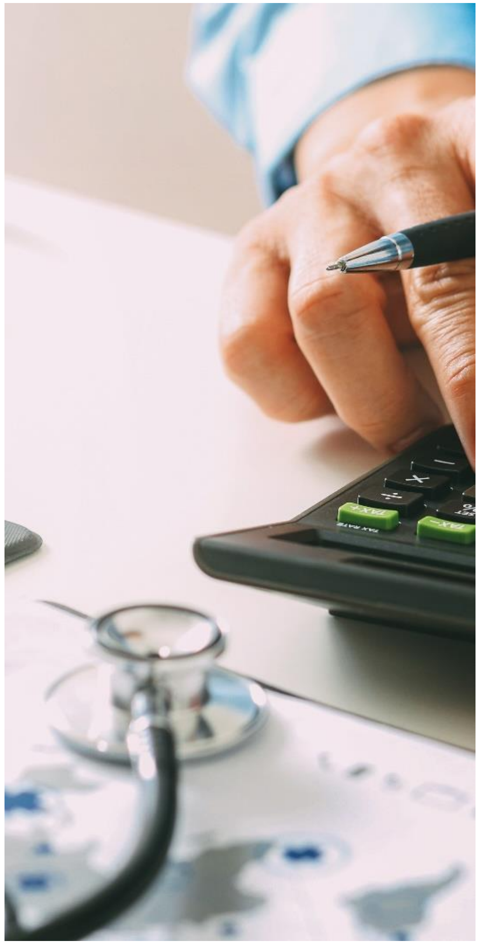
Our responsibility

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. However, the template form and associated guidance are not expected until January, therefore we have been unable to complete the audit work required.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Hereford & Worcester Fire Authority in the audit report, as detailed in Appendix D, due to WGA guidance not being expected until January.



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Authority's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

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. We did not identify any risks of significant weakness. We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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:

A Grant Thornton employee, based in our Birmingham Office, is the Son of a key member of Hereford & Worcester Fire Authority's finance team, who worked on the 2018/19 and 2019/20 financial statements. The member of the finance team was a key contact for our audit work in those two years. As the 2020/21 financial statements will include comparative figures for 2019/20 we have applied the following safeguards:

- The Grant Thornton employee will not work on the Authority audit
- The Grant Thornton employee will not people manage anyone working on the audit
- All files will be restricted so that the Grant Thornton employee is unable to gain access to client information
- The resourcing, audit team and the Grant Thornton employee's people manager have been made aware
- The relationship will be declared on annual declarations going forward.

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 C.

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. Action plan – Audit of Financial Statements

We have identified four recommendations for the Authority as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	**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.	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. **Management response** The Authority recognizes the shortcomings in the previous process which was further complicated by the total closure of Place Partnership Ltd (PPL) (the valuer) within days of providing the original valuations. Going forward professional valuation services will be provided under a new arrangement under the Police & Crime Commissioner. This relationship has been used to correct and review the valuations initially carried out by PPL and has resulted in the valuer and the Authority having a much fuller understanding of the valuation process and potential issues arising. The Authority will in future be provided with sufficient documentation to allow appropriate challenge where necessary. The experience in resolving the 2021/22 issues has given confidence that future arrangements are sufficiently robust.
Medium	**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.	The Authority needs to ensure that information provided to the Government Actuary Department (GAD) is up to date, complete and accurate. **Management response** The Authority will be reviewing the process for providing and reconciling data provided to GAD co-ordinating Finance, Payroll and Pensions team inputs.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	**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.	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. **Management response** The Authority acknowledge that the valuation method used initially has not kept pace with the requirements of the Code, and will look at alternative ways to provide this information. This will include the potential use of expert advisers, although the value for money benefit of paying an external fee to provide a figure for a note to the Accounts will have to be judged.
Medium	**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.	The Authority needs to ensure that it consistency applies it accounting policies. **Management response** The apparent inconsistency is an error of omission rather than of commission. A small number of invoices that should have adjusted were missed. Processes will be amended to try to reduce this in future but, in relation to the small size of the team and the tight timescales for the initial sign off of the Accounts (31 May), it cannot be guaranteed individual invoices may still be missed. However as stated the impacts are not material.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

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 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Impact of the change in property valuations:			
Dr. Cost of Services	1,835	1,835	1,835
Dr. Revaluation Reserve		2,575	0
Cr. Property, Plant & Equipment		(4,410)	
Incorrect manual split within Financing & Investment Income & Expenditure:			
Cr. FIIE Gross Expenditure	(371)		(371)
Dr. FIIE Gross Income	371		371
Incorrect classification of expenditure relating to write off of rent free period on disposal of investment property:			
Dr. FiIE Gross Expenditure	422		
Cr. FIEE Gross Income	(422)		
Collection Fund – NDR income overstated:			
Cr. Debtors		(242)	
Dr. NDR income	242		242
Cr. General Fund		(242)	
Dr. Collection Fund Adjustment Account		242	
Incorrect adjustment for prior year change in the valuation of investment Property:			
Cr. Capital Financing in Cost of Services	(215)		
Dr. Financing & Investment Income & Expenditure	215		
Overall impact	**£2,077**	**£242**	**£2,077**

Impact of unadjusted misstatements

There are no unadjusted misstatements.

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	40,061	TBC
Total audit fees (excluding VAT)	40,061	TBC

The final audit fee will be discussed on completion of the audit. Any further variations will need to be approved by Public Sector Audit Appointments (PSAA).

The fees above agree to the financial statements (£40k).

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 2021, 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 and the Statement of Net Assets. 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 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 2020/21; 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.

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 2020/21 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

D. Audit opinion

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.

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;

D. Audit opinion

- 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 2020/21, 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.

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 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local.

D. Audit opinion

- Government Act 2003 and the Fire and Rescue Services Act 2004. We also identified the following additional regulatory frameworks in respect of the firefighters' pension fund - Public Service Pensions Act 2013, 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 Treasuer has in place to prevent and detect fraud;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of land and buildings, investment property 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. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from 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.
- 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.
- Assessment of the appropriateness of the collective competence and capabilities of the Authority's 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:

D. Audit opinion

- 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 2021.

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.

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 April 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.

D. Audit opinion

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 – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Hereford and Worcester Fire Authority for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

We are satisfied that this work does not have a material effect on the financial statements.

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