Grant Thornton

The Audit Findings for Hereford & Worcester Fire Authority

Year ended 31 March 2020

8 October 2020

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Your key Grant Thornton team members are:

Alex Walling
Director
T: 0117 305 7804
E:alex.j.walling@uk.gt.com

Neil Preece
Manager
T: 0121 232 5292
E:neil.a.preece@uk.gt.com

Allison Thomas
Assistant Manager
T:0121 232 5278
E: : Allison.A.Thomas@uk.gt.com
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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 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a limited impact on the normal operations of the Authority. The impact has included: • Maintenance of a full response capability • Reduction (but not cessation) of prevention and protection activity – in line with national guidance • Reduction in training (and agreed extension of competency timescale) – in line with national guidance. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 27 May 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6. Restrictions for non-essential travel has meant both Authority and audit staff have had to get used to new ways of remote working, including remotely accessing financial systems, video calling, additional procedures to verify the completeness and accuracy of information produced by the Authority, as well as making greater use of 'Inflo', our document management sharing system. The pre audit financial statements were signed by the Treasurer on 29 May, which was within the normal deadline, and well before the revised 31 August deadline.
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, 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 June-September. Our findings are summarised on pages 5 to 15. There have not been any adjustments to the financial statements that have resulted in adjustments to the Authority's Comprehensive Income and Expenditure Statement (CIES) as a result of our audit work. However, during our audit HM Treasury issued updated guidance on the McCloud pension case. Officers asked the actuary (GAD) to provide an updated report incorporating the latest guidance. The affect was to reduce the Firefighters' Pension Fund net deficit by £2.35m from £363.246m to £360.896m. The impact on the CIES was to reduce current service in respect of firefighters by £0.65m from £8.76m to £8.11m and to reduce past service cost by £1.65m from £1.25m to a "gain" of £0.4m.A total of £2.3m. Audit adjustments are detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A. 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 other material changes to the financial statements, subject to the following outstanding matters: • receipt and evaluation of Pension Fund assurances from auditor to Worcestershire Pension Fund; • finalising detailed testing on property revaluations; • completion of our debtors testing; • receipt of management representation letter; and • review of the final set of financial statements.

Headlines

Financial Statements		The financial statements have been updated to include a "material uncertainty" in respect of the valuations of property and investment property. This is now consistent with the RICS guidance and the public sector in general. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. The financial statements we have audited are up until 31 March 2020 which was shortly after the outbreak of the Covid-19 coronavirus pandemic. Our anticipated audit report opinion will be unmodified.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Authority's value for money arrangements. We have concluded that Hereford & Worcester Fire Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 16 and 17.
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.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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.

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:

	Authority Amount (£)	Qualitative factors considered
Materiality for the financial statements	688,000	
Performance materiality	516,600	
Trivial matters	34,400	
Materiality for the remuneration of individual senior managers.	50,000	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 £50,000.

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 had to alter our audit plan, as communicated to you on 22 April 2020, to reflect our response to the Covid-19 pandemic. We reported this in our audit plan addendum dated 27 May 2020. We have reported how we addressed this risk on page 7.

Key messages

Key messages arising from our financial statements work

- the financial statements were submitted well before the deadline;
- officers have made a number of minor changes to the financial statements to correct typographical errors and prior year comparators;
- the financial statements have been updated to reflect the impact of latest HM Treasury guidance on the McCloud case;
- the Narrative Report (page 12, paragraph 52) highlights that the 2018/19 balance sheet has been amended to reflect the final settlement of the debtor with Wychavon District Council in respect of Evesham Fire Station. The issue is set out in more detail on page 34, Note 8, where the adjustment is shown as reducing short term debtors by £59k. The amendments shown in the 2019/20 financial statements are not fully compliant with auditing standards but, given the low value and the complexities and challenges of incorporating the adjustment in any other way, we have agreed with Officers not to ask for this to be amended;
- the Annual Governance Statement (AGS) was not published on the Authority website until 8 September, which is after the public inspection period began. We have taken the view that the AGS was available should anyone have wished to review it; the accounts themselves have been available and on the Authority website since the end of May; and no one has inspected them; the likelihood of anyone wishing to inspect the AGS is small; we have confirmed with the Treasurer that, should anyone wish to inspect the AGS outside of the inspection period, they would be allowed to do so. We have therefore agreed with the Treasurer to leave the inspection period unchanged;
- the financial statements have been updated to include disclosure of the material uncertainty over the valuation of property and investment property – as advised by the Authority valuer on 22 September;
- the audit fee (Note 21) was amended to reflect the fee agreed in our audit plan and set out on page 22 of this report;
- a number of adjustments were required to the Property, Plant & Equipment Note (31). None of these adjustments affected the Balance Sheet value. Adjustments made:
    a) Correction of transposed headings between 'assets not yet operational' and 'surplus assets';
    b) Correction of the land & buildings additions from £4,938k to £4,338k;
    c) Remove lines for 'reclassification to investment assets' and 'reclassification to intangible assets';
    d) Correct the land & buildings depreciation column - to include the £9k for the 'depreciation written out to the surplus/deficit on provision of services';
- the Financial Instruments Note (48), was amended to include the bank balance of £2,093k as a financial asset;
- in the Related Party Note (20) the disclosure for Place Partnership Limited, for the operating costs for the year was amended from £1,810,092 to the net value of £1,508,410. There was no impact on the Authority expenditure for the year as this was correctly included in the general ledger;
- pensions - in the table at Note 90 reporting the principal assumptions used by the Actuaries the mortality figures for LGPS were amended to reflect those used by the actuary;
- contingent liabilities (Note 113) - Officers have agreed to include amounts in relation to the pay award (£837k) and Fire Fighters pension (£400k) disclosures as these amounts can be estimated reasonably accurately and should therefore be disclosed;
- Note 26 - Operating lease income figures were amended as the original note had been incorrectly duplicated from the preceding table. There was no impact on the Authority income; and
- the Narrative Report has been updated at paragraphs two and 40 to reflect the latest position with the PCC and the Covid-19 impact and at paragraph 23 where the austerity impact is discussed and two figures were amended.

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 8 October 2020, as detailed in Appendix D. These outstanding items include:

- receipt and evaluation of Pension Fund assurances from the auditor to Worcestershire Pension Fund;
- finalising detailed testing on property revaluations;
- completion of our debtors testing;
- receipt of management representation letter; and
- review of the final set of financial statements.

Significant audit risks

Risk identified in our Audit Plan addendum	Auditor commentary
Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	To address this risk we: • worked with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose • evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • discussed with management any potential implications for our audit report if we had been unable to obtain sufficient audit evidence. **Findings** We were able to obtain sufficient appropriate audit evidence to undertake our audit as we planned. However, aspects of our work were more challenging as being able to sit with colleagues and officers makes discussing issues and resolving questions much easier.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
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. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	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 audit work has not identified any issues that have caused us to revisit our initial assessment.
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** Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan	Auditor 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 Authority and group 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 had 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** We noted in our Audit Plan dated 22 April 2020 that the FRC has determined that auditors need to improve the quality of audit challenge on property valuations across the sector. We therefore increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin property valuations. This resulted in significantly more work than previous years, including review and challenge of the source data used by the valuer to prepare valuations. This work was particularly challenging as we were not able to meet in person with the valuer or officers to go through this work. The financial statements presented for audit did not include a material uncertainty in relation to the valuation of property and investment property as at 31 March 2020. Having questioned the valuer they have now confirmed that this was an omission from their valuation report and provided the Authority with further letters clarifying the situation, and officers have updated the financial statements to ensure this is properly disclosed in Note 34 , page 42. Our work in this area is ongoing but, to date, we have not identified any issues.

Significant audit risks

Risks identified in our Audit Plan	Auditor 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 and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	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 audit work to date has not identified any issues in respect of the valuation of the pension fund net liability. However, we are still waiting for 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. In respect of the McCloud case, Note 130 – Critical Judgements in Applying Accounting Policies, notes that "The exact remedy has not been agreed by the employment tribunal but it is possible to estimate what position individuals would have been in had the transition arrangements (which are now deemed discriminatory) not applied. This recalculation undertaken by the Pension Actuaries has provided a funding figure based on one possible solution to the back funding position of the pension. However, a different solution would result in a different funding figure. At this time it is not possible to quantify this position." However, since the draft financial statements were published, further guidance has been provided and the pension liability has been remeasured, as normal, via an actuarial report, taking account of best estimates in relation to the impact of McCloud/Sargeant judgements. The main changes are highlighted on page 3.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted) The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.	In response to the Covid-19 pandemic the implementation of this new Standard was deferred by one year to 1 April 2021. However, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 paragraph 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. We are satisfied that the Authority disclosures are adequate at this stage.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other	The Authority revalues its land and buildings annually.	We have set out our findings in relation to the valuation of other land and buildings on page 9. 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.	(Green)
Net pension liability	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.	We have set out our findings in relation to the net pension liability on page 10. 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.	(Green)

Assessment

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

Significant findings – going concern

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).

Going concern commentary	Auditor commentary
Management's assessment process Management do not undertake a formal assessment of whether the Authority is a going concern. The Authority has a sound income stream through Council Tax (£23.6m) and Business Rates (£2.6m). It has delivered a balanced budget year on year and has a realistic Medium Term Financial Strategy. The Authority also has usable, non earmarked reserves of £1.5m.	**Auditor commentary** This is reasonable as the Authority has a realistic Medium Term Financial Strategy and sufficient reserves to cover any short term unexpected need. It would be considered a going concern even if it demised and the services transferred to another body. Our Informing the Audit Risk Assessment report, presented to the Audit & Standards Committee on 22 April, shows on pages 18 to 19 the arrangements in place to demonstrate that the Authority is a going concern.
Work performed Our audit work, including our VFM work, has not raised any doubts around the going concern assumption. Also, in the public sector, going concern is taken to mean that the services are transferred to or delivered by another body. As the Authority's functions would be delivered by any successor body, the threat of re-organisation does not apply.	**Auditor commentary** We note that the Authority had appealed to the Royal Court of Justice for a Judicial Review over the decision to transfer Governance to the Police and Crime Commissioner (PCC). In relation to the first Judicial Review – the initial appeal – the Authority was not given leave to appeal, so the challenge has fallen. In relation to the second Judicial Review, this was stayed, but has now been withdrawn following Home Office confirmation in June that a new business case will be required, and this will not be requested until after the PCC elections in May 2021. We have nothing to report in relation to Going Concern.

Other matters for communication

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	Auditor 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 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.
Disclosures	• 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.

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. We plan to issue an unmodified opinion in this respect – 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 numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties 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. Work is not required as the Authority does not exceed the threshold.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of Hereford & Worcester Fire Authority in the audit opinion, as detailed in Appendix D.

Value for Money

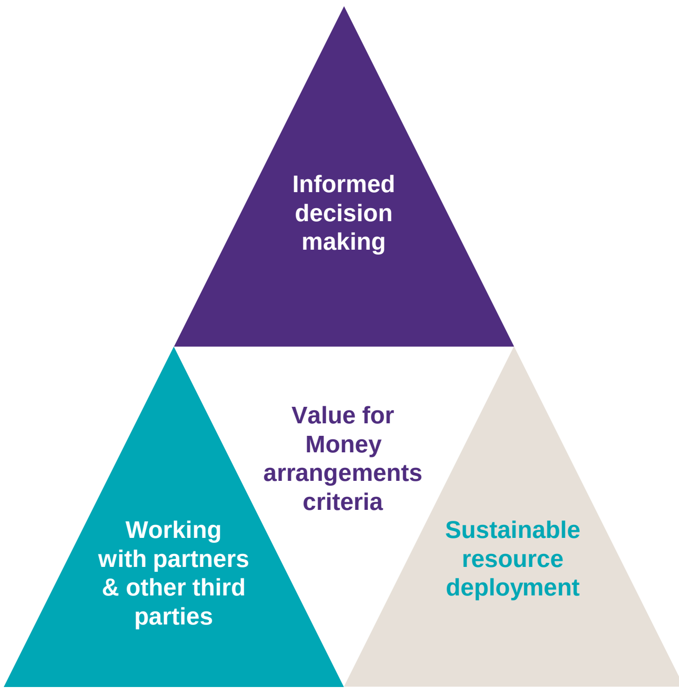
Background to our VFM approach

We are required to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Authority. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

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



Risk assessment

We carried out an initial risk assessment in January 2020 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 22 April 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work. We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment.

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Authority's arrangements. In arriving at our conclusion, our main considerations were the robustness of the Authority's Medium Term Financial Plan.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on page 17.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Authority had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix D.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment.

Significant risk	Findings	Conclusion
Medium Term Financial Plan (MTFP) The MTFP approved in February 2020 set out the financial challenge and proposed use of reserves to bridge the short term deficit. Even with the use of £2.4m of reserves, there remains an ongoing deficit of around £0.4m from 2024/25. To address this risk we: • reviewed the Authority's arrangements for updating, agreeing and monitoring its financial plans and MTFP. • reviewed progress made to address the forecast underlying and ongoing deficit. • considered any significant new savings schemes brought forward in the February 2020 MTFP to obtain assurance that they are robust and realistic.	The Budget, Precept 2020/21 and MTFP were presented in a paper to Full Authority on 12 February 2020. The report sets out the background and challenges, particularly the uncertainties in many areas. The report is clear and comprehensive, and sets out the key assumptions and risks. The Authority is forecasting an underlying long term deficit of around £400k per year. This has been clearly reported to Members. The underlying deficit has decreased over the years. For example, the October 2019 MTFP update reported that the Authority would need to be spending £1.2m less from 2023/24. The latest position is essentially back to where we reported in our Audit Findings Report last year, meaning that the financial challenges caused by changes to the pension contributions have been allayed through government funding. We selected three of the larger savings schemes for detailed testing - Crewing Changes (£250k a year), Fire Control Collaboration (£300k a year) and Wyre Forest Hub (£100k a year). While noting that none of these schemes are new, we are satisfied that the forecast savings are reasonable. The Fire Control collaboration with Shropshire Fire Authority (and/or other potential partners) requires all authorities to agree a way forward, and will need to reflect latest guidance in relation to joint working and call handling capacity, and the recommendations of the Kerslake and Grenfell enquiries.	Finance reports are regularly updated and reported to Members. Finances are monitored very closely - both the MTFP and quarterly reports highlight issues and amounts that are of immaterial value, but without providing too much detail. This is because the majority of the budget is pay. The Authority has a number of longer term transformational projects in progress which will reduce the ongoing deficit to around £400k a year. Once the long term funding from government is clearer the Authority will need to consider how best to bridge the residual gap to ensure that use of reserves to balance the budget is not required on an ongoing basis.

Independence and ethics

We confirm that, with the exception of the issue reported below, there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the 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.

A Grant Thornton employee, based in our Birmingham Office, is the son of a key member of Hereford & Worcester Fire Authority's finance team. The member of the finance team will be a key contact for our audit work. 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.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No non-audit services were identified.

Follow up of prior year recommendations

We identified the following issues in the audit of Hereford & Worcester Fire Authority's 2018/19 financial statements, which resulted in one recommendation being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note that, for 2019/20, our testing identified only two very low value items that had been included in the incorrect financial year.

Assessment	Issue and risk previously communicated in 2018/19	Update on actions taken to address the issue
✓	**Statement of Accounts completion** Our testing identified one invoice, very close to our materiality level of £630k, that should have been accrued for. In addition, we identified a further two invoices of lower value that should also have been accrued for. Additional work identified a further 11 such invoices, totalling nearly £70k. The Authority has a Closedown Plan and timetable in place, but this is reliant on Officers flagging and being aware of items that need to be accrued for. **Recommendation** The Authority needs to ensure that Officers are aware of, and flag to their finance colleagues items which need to be accrued. **Management response** The recommendation is accepted in principle, however in order to meet the current reporting deadlines within the resources of the Finance team it will always be necessary to set a cut-off date and there is always the likelihood that a particular item will just slip the wrong side of this deadline. In circumstances where a material invoice is subsequently identified an appropriate adjustment would still need to be made.	Our testing to address the cut-off risks and completeness assertion has identified non trivial errors, in respect of items that should have been accrued for in 2019/20, but were not, as the invoices were not received until after the accrual cut-off date. Our extrapolations of the identified errors estimates the total error amounts to approximately £28k. Given the trivial value of the extrapolation and errors we have not requested officers to amend the financial statements. The expenditure has been recognised in financial year 2020/21.

Assessment

✓ Action completed

X Not yet addressed

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. As noted on page 3, adjustments have been necessary in respect of additional guidance on the McCloud pension case remedy.

Impact of adjustments

All adjustments 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 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Adjustments arising from updated McCloud pension case guidance:			
• Decrease in Current Service Cost	(0.65)	(0.65)	(0.65)
• Decrease in Past Service Cost	(1.65)	(1.65)	(1.65)
Overall impact	**£(2.3)**	**£(2.3)**	**£(£2.3)**

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure change	Detail	Adjusted?
Note 31 – Property, Plant & Equipment	A number of adjustments were required to the PPE Note including: (a) Correction of transposed headings between 'assets not yet operational' and 'surplus assets'; (b) Correction of the land & buildings additions from £4,938k to £4,338k. These did not affect the value of the Authority assets.	✓
Note 48 – Financial Instruments	This note was amended to include the bank balance of £2,093k as a financial asset. This did not affect the bank balance itself.	✓
Notes 114 & 115 – Contingent Liabilities	Officers have agreed to include amounts in relation to the pay award (£837k) and Protected Pension Age of Fire-fighters (£400k) disclosures.	

Audit adjustments

Impact of unadjusted misstatements

There are no unadjusted misstatements for 2019/20.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Invoices that were incorrectly omitted from the financial statements: Dr. Running Costs Gross Expenditure Cr. Short Term Creditors	70	70	70	Immaterial and will be included in 2019/20. Auditor Comment These items relate to our findings from the 2018/19 audit. Please refer to Appendix A for our findings this year.
Overall impact	**£70**	**£70**	**£70**	

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	30,561	TBC
Total audit fees (excluding VAT)	**30,561**	**TBC**

We are unable to confirm our audit fee as our work is incomplete.

Audit opinion

We anticipate we will provide the Authority with an unmodified audit report

Independent auditor's report to the members of Hereford & Worcester Fire Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hereford & Worcester Fire Authority (the 'Authority') for the year ended 31 March 2020 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 Firefighters' Pension Fund financial statements comprising the Firefighters' Pension Fund Account, Firefighters' Pension Fund Statement of Net Assets and notes to the financial statements. 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 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 2019/20; 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. 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Treasurer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Audit opinion

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings

We draw attention to Note x of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of land and buildings as at 31 March 2020. As, disclosed in Note x to the financial statements, [insert key points highlighted in the disclosure note here]. Our opinion is not modified in respect of this matter.

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 of the Authority 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 this 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 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 the '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.

Audit opinion

Opinion on other matter 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 gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, 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 more fully 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 2019/20, 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.

Audit opinion

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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 on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Hereford & Worcester Fire Authority 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]

Alex Walling, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

[Date]

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