

The Annual Audit Letter for Hereford & Worcester Fire Authority

Year ended 31 March 2017

October 2017

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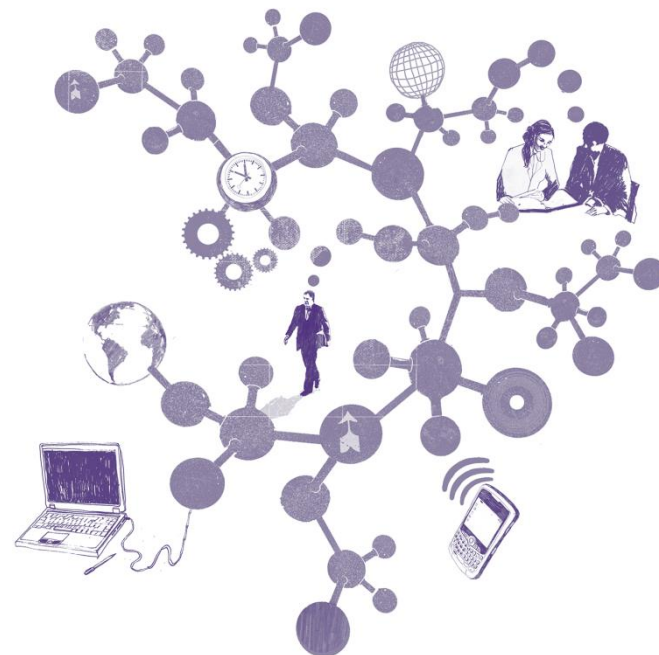
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Hereford & Worcester Fire Authority (the Authority) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Authority and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Authority's Audit & Standards Committee (as those charged with governance) in our Audit Findings Report on 6 September 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Authority's financial statements (section two)
- assess the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Authority's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Authority's financial statements on 6 September 2017. The deadline for 2018 onwards is 31 July, so further improvements in timeliness will be required. We will discuss how best to achieve this with Officers.

Value for money conclusion

We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 6 September 2017.

Certificate

We certified that we had completed the audit of the accounts of Hereford & Worcester Fire Authority in accordance with the requirements of the Code on 6 September 2017.

Working with the Authority

An efficient audit – we delivered the accounts audit before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work. We will build on this in 2017/18, with the aim of completing your audit by the end of July, which is the new deadline.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your Medium Term Financial Plan. We highlighted the need for detailed long terms plans to address the residual deficit. In the long term, use of reserves to achieve breakeven is not sustainable and the Authority needs to consider how to get to a recurrent breakeven budget over time.

Providing training – we provided your finance team with training on financial accounts.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Authority's staff.

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Authority's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Authority's accounts to be £717,000, which is 2% of the Authority's gross revenue expenditure from the previous year. We used this benchmark, as in our view, users of the Authority's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for related party transactions and Disclosures of officers' remuneration, salary bandings and exit packages. We set a lower threshold of £20,000, above which we reported errors to the Audit & Standards Committee in our Audit Findings Report.

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The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Authority's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Director of Finance & Assets (Treasurer) are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Authority and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Authority's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of pension fund net liability The Authority's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.	To address this risk we: <ul style="list-style-type: none">• identified the controls put in place by management to ensure that the pension fund liability was not materially misstated.• assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.• reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation.• gained an understanding of the basis on which the valuation was carried out.• undertook procedures to confirm the reasonableness of the actuarial assumptions made.• reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.• obtained assurance from the external auditor of the Worcestershire County Council Pension Fund (WCCPF) regarding the relevant controls and processes in place at the WMPF in order that we could rely on the outputs from the WCCPF.	Our audit work did not identify any significant issues in relation to the risk identified.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Authority's accounts on 6 September 2017, in advance of the 30 September 2017 national deadline.

The Authority made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Authority to the Authority's Audit & Standards Committee on 6 September 2017. In addition to the key audit risks reported above, we commented that:

- the financial statements were prepared by early June, which places the Authority in a good position to meet the end of May deadline next year;
- our audit went well and we were able to complete our detailed testing as planned;
- officers were responsive to our questions and adopted a positive attitude throughout the audit;
- we will discuss with officers further efficiencies in the audit process to meet the end of July deadline for next year; and
- we did not identify any significant issues affecting the primary statements.

Annual Governance Statement and Narrative Report

We are required to review the Authority's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Authority and with our knowledge of the Authority.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Medium Term Financial Plan (MTFP) The Authority approved a four year MTFP in February 2017. This identified a total deficit over the four years to 2020/21 of £1,750k.</p> <p>The Authority is planning to use reserves to smooth this over the four year period. This would still leave £1,430k in the reserve. In the long term, use of reserves to achieve breakeven is not sustainable and the Authority is working on some longer term schemes to get a recurrent budget over time.</p>	<p>To address this risk we:</p> <ul style="list-style-type: none"> • examined the savings plans and efficiencies in the MTFP which have been identified to achieve the forecasts; • tested a sample of these to ensure they are robust and realistic; and • looked at the plans to address the residual shortfall and how well these have been worked up to ensure they also are realistic and achievable. 	<p>The Authority has forecast that it will be able to set a balanced budget, through the use of an earmarked reserve specifically for the purpose, for the next five financial years, even if no action is taken to make further efficiencies. We noted that the majority of the projects in place to address the underlying deficit are well worked through and realistic. It is therefore possible that the reserve will not be required in full, as savings start to materialise.</p> <p>The cost of running with "Excess Staff" is reducing - in 2018/19 the estimated cost is £589k, but this falls to £96k in 2019/20. The Budget Reduction Reserve will be used to cover the cost. As at 31 March 2017 this reserve had a balance of £3,063k.</p> <p>The MTFP reports budget surplus or deficits as: 2017/18 = £753k surplus; 2018/19 = £251k surplus; 2019/20 = £1,201k deficit; 2020/21 = £1,553k deficit. Giving a total over the MTFP of £1,750k deficit.</p> <p>This shortfall will be covered by the Budget Reduction Reserve, and the Authority has longer terms schemes in place which it considers will address the ongoing forecast deficit. However, there are risks associated with some of the schemes. In particular, the Wyre Forest Blue Light Hub is not within the Authority's control and is still not in a position to proceed. Similarly, the crewing savings depend on firefighters volunteering for a different work pattern and the changes are being consulted upon. The timescale for this scheme may be optimistic.</p> <p>On the basis of the Fire Authority plans and its current reserves, we have concluded that the financial risks are sufficiently mitigated and the Authority has proper arrangements for ensuring sustainable resource deployment.</p>

Appendix A: Reports issued and fees

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

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Authority	32,872	32,872	32,872
Total fees (excluding VAT)	32,872	32,872	32,872

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Fees for other services

Service	Fees £
Audit related services:	
None	Nil
Non-audit services:	
None	Nil

Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	August 2017
Annual Audit Letter	October 2017



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