



Hereford & Worcester Fire Authority

Audit and Standards Committee

Wednesday, 18 January 2017, 10:30

## Minutes

**Members Present:** Ms P Agar, Mr A Amos, Ms L R Duffy, Mr Al Hardman, Mrs A T Hingley, Professor J W Raine, Mr G J Vickery

**Substitutes:** none

**Absent:**

**Apologies for Absence:** Mr S C Cross, Ms K S Guthrie, Mr R I Matthews, Mr S D Williams

Also in Attendance: Mr D Prodger MBE

### 58 Confirmation of Minutes

***RESOLVED*** that the minutes of the Audit and Standards Committee held on 27 September 2016 be confirmed as a correct record and signed by the Chairman.

### 59 Annual Audit Letter 2015/2016

External Auditor Grant Thornton UK LLP presented the report and confirmed that an unqualified opinion on the Authority's 2015/16 financial statements and value for money conclusion had been issued on 27 September 2016. Financial statements were considered to give a true and fair view of the Authority's financial position and the financial statements presented for audit were sound.

It was recommended that the Authority should continue to develop the improved review process against the requirements of the CIPFA Code of Practice and incorporate these within future timetables for the preparation of the Authority's annual financial statements.

The External Auditor highlighted the following key messages arising from the Audit 2015/16.

- i The Authority has taken appropriate account of the current economic climate and plans are supported by detailed and robust assumptions.
- ii The Authority has a sound understanding of the current financial environment and undertakes robust planning for the medium and long term extending to 2020.
- iii There is a strong link between the Authority Plan and the Community Risk Management Plan.
- iv The Authority historically closely monitors its expenditure and does not exceed budget levels.
- v The Senior Management Board provide clear leadership on spending priorities and demonstrate a clear understanding of the resource requirements of the Service.
- vi Performance management is strong and appropriately challenged.
- vii The Authority benchmarks its performance with other authorities to identify areas for improvement. Efficiencies have been made and efficiency plans continue to be implemented.

[10:35 Cllr Agar entered the room]

[10:36 Cllr Amos entered the room]

Following questions from Members on the concept of materiality the External Auditor provided clarification on its definition as well as expanding on how risk factors and judgement are used to determine the materiality percentage figure.

**[Annual Audit Letter 2015/16 attached at Appendix 1 of these minutes]**

***RESOLVED* the Annual Audit Letter 2015/16 from External Auditors, Grant Thornton UK LLP be noted.**

## **60 External Audit Fee 2016/2017**

The External Auditor summarised the scale fee for audit work and confirmed that all scheduled work will take place within the fee envelope and that no additional fees had been incurred. Members were reassured that fees are independently set and that any variation has to be independently agreed.

***RESOLVED* the External Audit Fee 2016/17 be noted.**

**61 Internal Audit Monitoring Report 2016/2017**

The Head of Internal Audit Shared Service reported against the 2016/17 audit plan and highlighted to Members that of the four completed audits all had returned a 'Full' assurance level with no recommendations. The remaining audits were all underway and full report summaries would be presented at the next Committee. Members were asked to note that the CARE Scheme audit was being carried out as an additional review at the request of the Treasurer to provide assurance over held data.

***RESOLVED* the Internal Audit Monitoring Report 2016/17 be noted.**

The Meeting ended at: 10:51

Signed:..... Date:.....

Chairman

# The Annual Audit Letter for Hereford & Worcester Fire Authority

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**Year ended 31 March 2016**

October 2016

**Mark Stocks**

Partner

T 0121 232 5437

E [mark.c.stocks@uk.gt.com](mailto:mark.c.stocks@uk.gt.com)

**Neil Preece**

Audit Manager

T 0121 232 5292

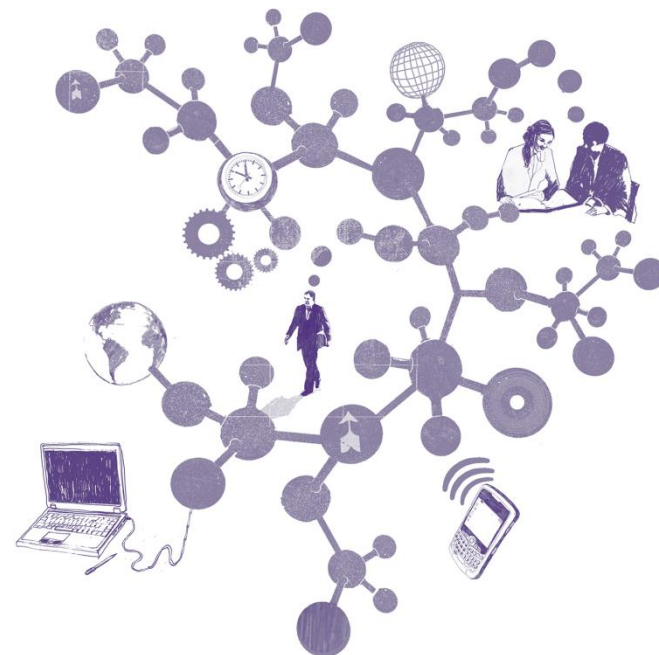
E [neil.a.preece@uk.gt.com](mailto:neil.a.preece@uk.gt.com)

**Allison Thomas**

Executive

T 0121 232 5278

E [allison.a.thomas@uk.gt.com](mailto:allison.a.thomas@uk.gt.com)



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# Executive summary

## Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Hereford & Worcester Fire Authority (the Authority) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Authority and its external stakeholders, and to highlight issues that 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 27 September 2016.

## 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 27 September 2016.

### 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 2016. We reflected this in our audit opinion on 27 September 2016.

### 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 27 September 2016.

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 2016**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Authority's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating 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 £645,000, which is 1.8% of the Authority's gross revenue expenditure. 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 certain areas such as cash, senior officer remuneration and auditors' remuneration.

### **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that 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 management 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 on which we give 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
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Hereford &amp; Worcester Fire Authority, we determined that the risk of fraud arising from revenue recognition can be rebutted because:</p> <ul style="list-style-type: none"><li>• there is little incentive to manipulate revenue recognition</li><li>• opportunities to manipulate revenue recognition are very limited</li><li>• the culture and ethical frameworks of local authorities, including Hereford &amp; Worcester Fire Authority, mean that all forms of fraud are seen as unacceptable.</li></ul> <p>Our audit work did not identify any issues in respect of revenue recognition.</p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"><li>• reviewed entity controls</li><li>• tested journal entries</li><li>• reviewed accounting estimates, judgements and decisions made by management</li><li>• reviewed unusual significant transactions.</li></ul> <p>Our audit work did not identify any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries did not identified any significant issues.</p>



# Audit of the accounts (continued)

Risks identified in our audit plan	How we responded to the risk
<p><b>Valuation of pension fund net liability</b></p> <p>The Authority's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated</li> <li>• assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement</li> <li>• reviewed the competence, expertise and objectivity of the actuaries who carried out your pension fund valuation</li> <li>• gained an understanding of the basis on which the valuation is carried out</li> <li>• performed procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>• reviewed the consistency of the pension fund assets and liabilities and disclosures in notes to the financial statements with the actuarial reports from your actuaries.</li> </ul> <p>We undertook additional work and sort assurance in the Letter of Representation that it is appropriate for the pension fund liability associated with those staff who transferred to Place Partnerships Ltd (PPL) to be included in the Authority's accounts rather than in PPL's accounts.</p>
<p><b>Employee remuneration</b></p> <p>Employee remuneration is understated.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• performed walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>• tested a sample of employee remuneration payments</li> <li>• agreed employee remuneration disclosures in the financial statements to supporting evidence</li> <li>• reviewed the reconciliation between payroll and the general ledger</li> <li>• agreed the employee remuneration accrual in the financial statements to supporting evidence.</li> </ul> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Audit of the accounts (continued)

Risks identified in our audit plan	How we responded to the risk
<b>Operating expenses</b>  Operating expenses understated or not recorded in the correct period.	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"><li>• documented our understanding of processes and key controls over the transaction cycle</li><li>• performed walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li><li>• reviewed the calculation of significant accruals and other items</li><li>• reviewed payments after the year end</li><li>• tested a sample of operating expenses.</li></ul> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<b>Fire fighters' Pensions Benefit Payments</b>  Benefits improperly computed/ claims liability understated.	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"><li>• documented our understanding of processes and key controls over the transaction cycle</li><li>• performed walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li><li>• tested a sample of fire fighters' pensions benefit payments</li><li>• agreed pension disclosures in the financial statements to supporting evidence</li><li>• performed substantive analytical procedures on the total pension liability to ensure completeness of the liability.</li></ul> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Authority's accounts on 27 September 2016, in advance of the 30 September 2016 national deadline.

The Authority made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of 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 27 September 2016.

We identified one adjustment affecting the Authority's reported financial position. Accrued income and short term debtors were both overstated by £43k. However, officers decided not to amend the accounts for this item on the basis that it does not materially effect the Users interpretation of the Accounts and final position. This was included in our Letter of Representation and agreed by the Audit & Standards Committee on 27 September 2016.

We also asked for further assurances, through the Letter of Representation, that it is appropriate for the pension fund liability associated with those staff who transferred to Place Partnerships Ltd (PPL) to be included in the Authority's accounts rather than in PPL's accounts.

## **Annual Governance Statement and Narrative Report**

We are also 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.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Authority's accounts and to raise objections received in relation to the accounts.

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

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# 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 2015 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 2016.

# Value for Money

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
<p><b>Workforce</b> The Authority has been forward thinking in temporarily reducing the workforce, and therefore wholetime pay budget, by seconding staff to other Authorities. For the 2015/16 financial year, the secondments allowed the Authority to offset approximately £1,300k of wholetime uniformed staffing costs. With additional staff now being seconded and some staff transferring permanently as well as other unplanned leavers, the financial risk of returning staff is reduced. The Authority also has a reserve to mitigate this. However, there is still a financial risk around this.</p>	<p>We reviewed the project management and risk assurance frameworks established by the Authority to establish how it is identifying, managing and monitoring these risks.</p>	<p>The larger than required workforce has been predominantly managed through external secondments generating around £1.8m income for the Authority. A Voluntary Redundancy (VR) scheme has also been introduced. As at June 2016, as a result of the 18 VR to that date, the excess staff cost had reduced by £1.2m to £4m. The impact is that, after the secondment income, officers are forecasting that there should still be £2.3m in the Budget Reduction Strategy Reserve (which was created to manage the additional staff costs). There are still VR applications in the pipeline. If all of the applications are granted the excess staff cost would be reduced by a further £700k. By August 2018 the Authority is expecting to have the right number of fire fighters.</p> <p>The project and risk management around this issue have been good. The Authority has been at the forefront of outward secondments which has reduced the number of excess staff in the medium term, allowing more longer term solutions to be put in place. For example, different crewing patterns and VR. The Authority has also built up a financial reserve to cover this (although not all of this will be needed). Projections have been cautious and reporting has been transparent.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements.</p>
<p><b>MTFP gap</b> The Authority recently approved an updated MTFP. This confirmed that final budget gaps will be: 2016/17 £41k; 2017/18 £393k; 2018/19 £1,363k; 2019/20 £2,166k.</p> <p>The forecast gap in the previous MTFP was £3.346m by 2019/20, so has come down by £1.2m. However, the gap is still significant for the Authority.</p>	<p>We reviewed the project management and risk assurance frameworks established by the Authority in respect of the more significant projects, to establish how the Authority is identifying, managing and monitoring these risks.</p>	<p>The latest MTFP projects an initial gap of £2.4m to 2019/20. It then makes some adjustments using government suggested and Authority assumptions to end up with a revised gap of £1.6m. These adjustments include, for example, additional pension charges of £315k, and lower inflation rates.</p> <p>After taking account of savings plans and anticipated income generation, the likely gap for 2019/20 is £760k. The Authority is planning to use reserves to smooth this, over a four year period. Even then, if it did nothing, there would still be reserves to cover a further three years.</p> <p>There are tentative long terms plans to address this residual deficit, but they need working up. 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.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements.</p>

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# Working with the Authority

## **Our work with you in 2015/16**

We are really pleased to have worked with you over the past year. We believe we have established a positive and constructive relationship.

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 2016/17, with the aim of completing your audit by the end of July.

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.

Sharing our insight – we provided regular reports covering best practice. Areas we covered included Making devolution work and Reforging local government. We have also shared with you our insights on advanced closure of local authority accounts in our publication "Transforming the financial reporting of local authority accounts", and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

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

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues.

# 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

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Authority	32,872	32,872	43,829
<b>Total fees (excluding VAT)</b>	<b>32,872</b>	<b>32,872</b>	<b>43,829</b>

## Fees for other services

Service	Fees £
<b>Audit related services</b>	0
<b>Non-audit services</b>	0

## Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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