

The Audit Findings for Hereford & Worcester Fire Authority

Year ended 31 March 2019

17 July 2019



Contents



Your key Grant Thornton team members are:

Phil Jones
Director

T: 0121 232 5232
E: phil.w.jones@uk.gt.com

Neil Preece
Manager

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

Allison Thomas
Audit Executive

T: 0121 232 5278
E: Allison.A.Thomas@uk.gt.com

Section	Page
1. Headlines	3
2. Financial statements	5
3. Value for money	13
4. Independence and ethics	16
Appendices	
A. Audit adjustments	17
B. Fees	19
C. Action Plan	20
D. Audit Opinion	21

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

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 2019 for those charged with governance.

Financial Statements

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

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

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

Our audit work was completed on site during June & July. Our findings are summarised on pages 5 to 10. We have identified two adjustments to the financial statements.

During the audit an ongoing legal case around pensions was resolved, affecting all bodies admitted to the Fire Fighters' Pension Scheme (FFPS) and the Local Government Pension Scheme (LGPS), and other public sector schemes. For Hereford & Worcester Fire Authority this has the effect of increasing the Authority Deficit on the Provision of Services and the Net Pension Fund Deficit by £14,969k. Of this, £14,690k related to the Firefighter's Pension Scheme and £279k to the LGPS. While re-running the valuation report for the LGPS the actuary took the opportunity to update the return on assets as a result of further information. This had the effect of increasing the Net Pension Fund Deficit by a further £77k.

Our work to obtain assurance that there are no outstanding liabilities at 31 March 2019 that have not been disclosed in the 2018/19 financial statements, in order to give assurance for completeness of creditors and operating expenses, identified three invoices that had been incorrectly omitted. One of these related to expenditure on the Wyre Forest Emergency Services Hub and had a gross value of £618,544 (Net £515,453). Two other invoices had a combined gross value of £23,623. As a result of these errors we agreed with officers additional work which identified a further 11 invoices which should have been included in 2018/19. The total value of the 13 invoices is £69,809. Officers have amended the financial statements for the expenditure relating to the Wyre Forest Emergency Services Hub, but not for the other 13 invoices on the basis that they will be reflected in the 2019/20 financial statements, and the total value is immaterial. We have reported these as Unadjusted Misstatements on page 18, and included the issue in the Letter of Representation we are seeking from the Authority. The Audit & Standards Committee is asked to support management's approach.

The Authority needs to ensure that Officers are aware of, and flag to their finance colleagues items which need to be accrued. Recommendations for management as a result of our audit work are set out in Appendix C.

Audit adjustments 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 material changes to the financial statements, subject to the following outstanding matters;

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

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

Our anticipated audit report opinion will be unmodified.

Headlines

Value for Money arrangements	<p>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').</p>	<p>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.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 13 to 15.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">• 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.	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>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.</p>

Acknowledgements

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

Summary

Overview of the scope of our audit

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

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

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

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

We have not had to alter or change our audit plan, as communicated to you on 24 April 2019.

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 calculations remain the same as reported in our audit plan

Key messages

The key messages arising from our audit of the Authority's financial statements are:

- the primary statements were adjusted for the impact of the McCloud case.
- the primary statements were adjusted by £515k to include the net amount of the invoice relating to 2018/19 expenditure on the Wyre Forest Emergency Services Hub.
- invoices totalling £69,809 which should have been included in 2018/19 were not adjusted for.
- Officers agreed to make a number of changes to the Accounting Policies to better reflect circumstances at the Authority. These were:
 - Inclusion of the accounting policy for Investment Property as this is now a material value
 - Inclusion of the accounting policy for Surplus Assets as this is now a material value
- the original draft accounts provided to audit mis-stated the movements in PPE note disclosures. Additions values incorrectly included reclassified amounts and there were no separate disclosures made to state actual reclassifications from assets under construction to other asset categories. This was corrected in the version of the accounts signed by the Treasurer and published as "Draft".
- the "Specific Government Grants" Note (122) was amended. £353k initially disclosed as "ESMCP Control Room Grant" was re-disclosed to "Fire Revenue Grant - New Dimensions/Firelink", to give a revised total of £1,176k from £823k. There was no change to the overall total.
- Officers agreed to make a number of typographical errors, inconsistencies and presentational matters highlighted for amendment to improve clarity and understanding.

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 30 July 2019, as detailed in Appendix D. These outstanding items include:

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

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	The revenue cycle includes fraudulent transactions (rebutted)	<p>Auditor commentary</p> <p>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:</p> <ul style="list-style-type: none"> • 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. <p>Therefore we do not consider this to be a significant risk for Hereford & Worcester Fire Authority.</p> <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2	Management override of controls	<p>Auditor commentary</p> <p>To address this risk we have:</p> <ul style="list-style-type: none"> • 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. <p>Our audit work has not identified any issues in respect of management override of controls.</p>




Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
3	Valuation of land and buildings	<p data-bbox="499 315 733 339">Auditor commentary</p> <p data-bbox="499 354 810 378">To address this risk we have:</p> <ul data-bbox="499 392 2013 671" style="list-style-type: none"><li data-bbox="499 392 2013 445">• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work<li data-bbox="499 459 1348 484">• evaluated the competence, capabilities and objectivity of the valuation expert<li data-bbox="499 498 1369 522">• written to the valuer to confirm the basis on which the valuation was carried out<li data-bbox="499 536 1893 561">• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding<li data-bbox="499 575 1736 599">• tested revaluations made during the year to see if they have been input correctly into the Authority's asset register<li data-bbox="499 614 2013 666">• 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. <p data-bbox="499 721 1431 749">Our audit work has not identified any issues in respect of valuation of land and buildings.</p>





Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
4	Valuation of the pension fund net liability	<p>Auditor commentary</p> <p>To address this risk we have:</p> <ul style="list-style-type: none">• 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 evaluate 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• undertaken 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. <p><u>McCloud ruling re age discrimination</u></p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where there were transitional protections given to scheme members. The Government applied to the Supreme Court for permission to appeal, but this has been rejected. The legal ruling around age discrimination (McCloud - Court of Appeal) also has implications for other pension schemes where they have implemented transitional arrangements on changing benefits.</p> <p>The decision as to the appropriate accounting treatment is one for the Authority. The actuary has re-run the valuation reports with their best estimate of the impact re-McCloud. For the LGPS this also updated the return on assets as a result of further information. We have agreed with Officers that the financial statements will be amended to reflect the Pension Past Service Cost of £14,969k being a charge to the Provision of Services within the CIES. The Net liability arising from defined benefit obligation increases by the same amount, plus an additional £77k for the decrease in the rate of return on assets. Overall, the net liability increases from £381,370k to £396,416k.</p> <p>It is important to note that this ruling does not arise from anything that the Authority has done, or not done and, as far as we are aware, affects all public sector pension schemes.</p> <p>Our audit work has not identified any other issues in respect of valuation of the pension fund net liability.</p>

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.	<p>We have set out our findings in relation to the valuation of other land and buildings on page 7.</p> <p>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.</p>	 (Green)
Net pension liability	A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. 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.	<p>We have set out our findings in relation to the net pension liability on page 8.</p> <p>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 Council.</p> <p>We have noted that the net liability has increased as a result of a legal case, which has national implications.</p>	 (Green)
Provisions	Provisions are made when an event has taken place that gives the Authority an obligation that probably requires payment, but where the timing of the payment is uncertain. Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, based on the best estimate of the likely payment. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of the financial year, and where it is likely that payment does not need to be made, the provision is reversed and credited back to the relevant service.	<p>In our 2016/17 Audit Findings Report we noted “Our review of key estimates and judgements has highlighted one issue which we wish to bring to your attention. The Authority raised an invoice to Wychavon District Council in the amount of £394,437 on 16 October 2016. The invoice relates to the funding of Evesham Fire Station, but is being disputed by Wychavon DC. The Authority has not made any provision for doubtful debts in respect of this invoice. Given it is 10 months since the invoice date, and the significant value, we wish to bring this to your attention.”</p> <p>We note that this invoice is now almost two years old, and no provision has been made.</p>	 (Amber)

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

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 (£22.7m) and Business Rates (£2.8m). 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 £1.8m.

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 24 April, shows on pages 14 to 16 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 has appealed to the Royal Court of Justice for a Judicial Review over the decision to transfer Governance to the Police and Crime Commissioner. The appeal was heard on 5 and 6 June. Judgement is still awaited. As stated in “Work performed” the Authority functions would continue in any event, and it is therefore appropriate to use the going concern assumption.

We have nothing to report in relation to Going Concern.

Other communication requirements

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

	Issue	Commentary
1	Matters in relation to fraud	<ul style="list-style-type: none"> 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.
2	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
3	Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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.
4	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Authority, incorporating the unadjusted misstatements.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> 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.
6	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
7	Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> 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
① Other information	<ul style="list-style-type: none"> 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. <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix D.</p>
② Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> 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 <p>We have nothing to report on these matters.</p>
③ Specified procedures for Whole of Government Accounts	<p>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.</p> <p>Work is not required as the Authority does not exceed the threshold.</p>
④ Certification of the closure of the audit	<p>We intend to certify the closure of the 2018/19 audit of Hereford & Worcester Fire Authority in the audit opinion, as detailed in Appendix D.</p>

Value for Money

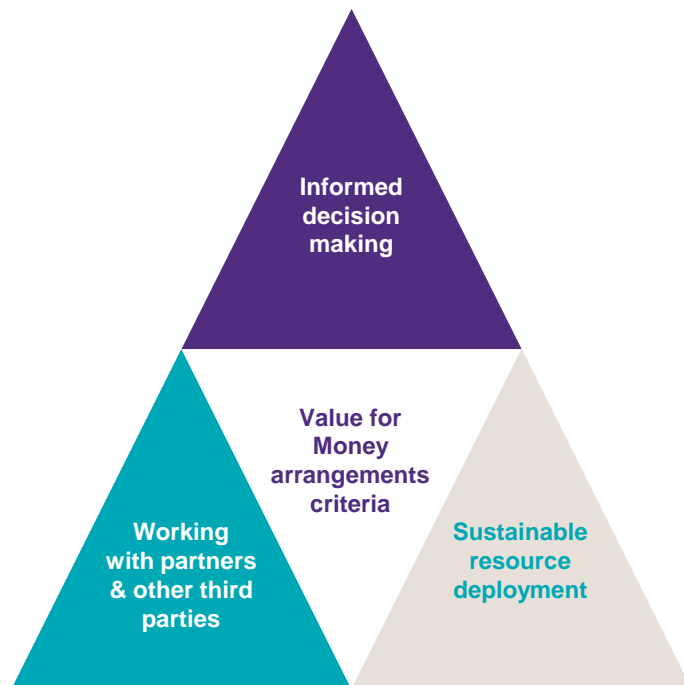
Background to our VFM approach

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 November 2017. 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 December 2018 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated 24 April 2019.

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.

Value for Money

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 risks 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 15.

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.

Key findings

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

Significant risk	Findings	Conclusion
<p>1 Medium Term Financial Plan (MTFP)</p> <p>The latest Medium Term Financial Plan (MTFP) was approved in February. As with many other public sector bodies, the Fire Authority has had to make significant efficiencies in order to ensure it is financially viable in the long term. We have looked at the MTFP in previous years and found the assumptions to be prudent, with sufficient reserves set aside specifically to allow the Authority to implement transformational changes without adversely affecting service delivery. However, with the financial challenges ongoing, and uncertainty around the crewing changes implementation and changes to the Firefighters' Pension Fund contributions, this remains a significant risk. The MTFP shows that, as things stand, by 2022/23 the Authority will have exhausted the Budget Strategy Reserve, but still be faced with annual deficits of over £1m.</p> <p>We will:</p> <ol style="list-style-type: none"> 1) Review the financial impact of crewing changes and implementation; 2) Review the impact of increased pension fund contributions and the Fire Authority response; 3) Review the February 2019 MTFP and test any new significant savings projects to assess whether they are realistic and robust. 	<ol style="list-style-type: none"> 1) Since the CRMP in 2014, the Authority has been working towards increasing crewing availability with existing resources, whilst recognising the need to make efficiencies. Recent court rulings mean that the preferred crewing options are no longer available. The Authority has been discussing with staff and the FBU to find an acceptable alternative. While these discussions are ongoing, the Authority does not expect any increase in cost as a result. 2) Changes to the firefighters' pension fund have a total impact of £1.4m per year. The MTFP was presented to the Full Authority in February. Before these changes the Authority would have essentially had a balanced budget each year from 2023/24, without the need for reserves. This would have resulted in £1.435m of the budget reduction reserve being available for other one off purposes. Whereas the MTFP has a balanced budget to 2023/24 with an expected gap of only £0.3m in 2024/25, the pension changes would produce a balanced budget only to 2020/21 with gaps of £1.3m, £1.8m and £1.6m in subsequent years and an on-going gap of around £1.5m from 2024/25. At this stage it is unclear what government funding will be available to help bridge the gap. Consequently, the Fire Authority has not made any plans for large scale efficiencies or savings until the outcome of the financial settlement is known. 3) Review of the MTFP presented to Full Authority in February 2019 indicates that there are no new schemes or plans to address the gap. Officers are waiting to see what the financial settlement is before assessing the impact and then deciding how best to respond. 	<p>Auditor view</p> <p>The MTFP approved in February 2019 showed the Authority in a sound financial position, with planned use of reserves in the short term while transformational projects took effect. The Authority would have essentially had a balanced budget each year from 2023/24, without the need for reserves. This would have resulted in £1.435m of the budget reduction reserve being available for other one off purposes. Changes to the firefighters' pension fund have a total impact of £1.4m per year. Officers are waiting to see the outcome of the financial settlement before making any decisions, which is a sensible approach.</p> <p>Changes to crewing arrangements are ongoing, and the Authority is ensuring that new arrangements are appropriately agreed and take account of relevant legal cases.</p> <p>Once the details of the financial settlement are known officers will need to work quickly to ensure the MTFP that will be approved in February 2020 takes account of the changes and provides an appropriate response to the financial challenge. The key to the future funding gap is whether or not government provides additional funding to cover the additional pension costs. If it does not the whole of the sector will face increased financial challenges.</p> <p>Management response</p> <p>Notwithstanding the existing uncertainty as a result of the pending Spending Review, the Fair Funding Review and Reform to the Retained Business Rates system, the key issue for financial planning is funding of the increased pension costs. Without these unexpected and significant cost increase the Authority was on track with the MTFP to achieve a balanced budget as planned by the end of the period. Government's view on funding these costs is not yet clear and the Authority has sufficient reserves to cover the short term impacts whilst formulating a plan to deal with whatever with the long term impact may be.</p>

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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

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.

Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
1 To include the invoice in the net amount of £515,453 that was incorrectly omitted from the financial statements: Dr. Property, Plant & Equipment Cr. Short Term Creditors		515 515	
2 To adjust for the revised actuarial figures as a result of the McCloud case: Dr. Pension Past Service Cost (CIES) Dr. Remeasurement of the net defined benefit liability/(asset) Cr. Other Long Term Liabilities (Pension Fund Net Deficit)	14,969 77	15,046	14,969 77
Overall impact	£15,046	£15,046	£15,046

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit & Standards Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
1 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.
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	25,311	TBC
Total audit fees (excluding VAT)	£25,311	TBC

The final audit fee is to be confirmed, pending discussions with Officers and PSAA regarding additional fee as a result of the extra work required arising from the McCloud case (estimated £2,000).

Action plan

We have identified one recommendation for the Authority, arising from our work on the Statement of Accounts, as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on this recommendation during the course of the 2019/20 audit. The matter reported here is limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
<div>1</div> <div></div> <div>(Amber)</div>	<div>Statement of Accounts completion</div> <div>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.</div> <div>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.</div>	<div>The Authority needs to ensure that Officers are aware of, and flag to their finance colleagues items which need to be accrued.</div> <div>Management response</div> <div>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.</div>

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Audit opinion

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

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hereford and Worcester Fire Authority (the 'Authority') for the year ended 31 March 2019 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 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; 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.

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.

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)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other 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 pages 12 to 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 2018/19, 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.

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 November 2017, 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 2019.

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 November 2017, 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 2019.

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 and 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]

Phil Jones,

Director

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

Birmingham

[Date]

