

The Audit Findings

Year ended 31 March 2021

West Midlands Fire and Rescue
September 2021



Contents



Your key Grant Thornton team members are:

Avtar Sohal

Key Audit Partner

E avtar.s.sohal@uk.gt.com

Zoe Thomas

Audit Manager

E zoe.thomas@uk.gt.com

Oyin Yemidale

Associate

E oyin.o.yemidale@uk.gt.com

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

Avtar Sohal

Name : Avtar Sohal
For Grant Thornton UK LLP
Date : 14 September 2021

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of West Midlands Fire and Rescue Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

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

- the Authority's financial statements give a true and fair view of the financial position of the Authority and its 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 between July and September. Our findings are summarised on pages 5 to 12. Per Appendix B, there are currently no audit adjustments resulting from this year's audit work. 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 or material changes to the financial statements, subject to the outstanding matters outlined on page 5 of this report.

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

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix D to this report. We expect to issue our Auditor's Annual Report by 31 December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any significant risks, as reported to you in our audit plan in June 2021. We are yet to finalise our procedures on this area of VFM work, however, the progress we have made are set out in the value for money arrangements section of this report. We will note any significant findings or recommendations in our Auditor's Annual Report.

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 expect to certify the completion of the audit upon the completion of our work on the Authority's VFM arrangements, which will be reported in our Auditor's report in December 2021.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

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

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 & Risk Committee meeting on 27 September 2021. These outstanding items include:

- receipt of management representation letter;
- review of the final set of financial statements;
- completion of audit work in relation to PPE,
- receipt of IAS 19 assurance statement from the auditors of West Midlands Pension Fund and completion of our work on pensions liability in relation to the fire-fighters pension fund and LGPS liability,
- Completion of our work on payroll and the associated remuneration reports.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted within our audit plan presented to the Audit & Risk Committee on 7 June 2021, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remote access to financial systems, video calling, verification of the completeness and accuracy of information provided remotely produced by the entity and similar challenges relating to pandemic working conditions.

Avtar Sohal

Avtar Sohal for Grant Thornton UK LLP

2. Financial Statements

Authority Amount (£) Qualitative factors considered

Materiality for the financial statements	£2.6m We determined that total expenditure in year was the most appropriate benchmark. Our risk assessment led us to set materiality at approximately 2% of prior year gross expenditure. We did not identify a requirement to change this upon receipt of draft financial statements.
Performance materiality	£1.9m Based on the internal control environment at the Authority we determined that 75% of headline materiality would be an appropriate benchmark.
Trivial matters	£0.130m We decided that matters below 5% of materiality were trivial.
Materiality for senior officer remuneration	£0.050m We identified senior management remuneration as a sensitive item and set a lower materiality of £50,000 for testing these items.



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 in June 2021.

We detail in the adjacent table our determination of materiality for West Midlands Fire and Rescue Authority



2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Commentary

Management override of controls

Under ISA (UK) 240, there is a non-rebuttable presumed risk that management override of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course the course of business as a significant risk of material misstatement.

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness

Our audit work has not identified any issues in this area. We are satisfied that there is no evidence of material management override of control or bias.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Improper revenue recognition (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.

As external auditors in the public sector, we are also required to give regard to Practise Note 10, which interprets the ISA in a public sector context and directs us to consider whether the assumption also applies to expenditure.

At the planning stage, having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue and expenditure recognition could be rebutted, because:

- there is little incentive to manipulate revenue and expenditure recognition
- opportunities to manipulate revenue and expenditure recognition are very limited; and
- the culture and ethical frameworks of local authorities, including West Midlands Fire and Rescue Authority, mean that all forms of fraud are seen as unacceptable.

We have kept our risk assessment under continual review during the course of the audit but have not noted any circumstances which would suggest a requirement to update our conclusion. Therefore we do not consider this to be a significant risk for West Midlands Fire and Rescue Authority.

Valuation of land and buildings (PPE)

The Authority revalues its land and buildings annually.

This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£124.3m in the draft financial statements)

We have:

- 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;
- Written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code are met;
- 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 balance sheet

Our audit work on the valuation of land and buildings remains in progress. However, our audit work to date has not identified any significant reporting issues.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1,866m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount rate, where for the LGPS the consulting actuary has indicated that a 0.1% change in the discount rate would have a £4m effect on the liability. In addition, the authority has five unfunded fire fighter pension schemes and a 0.5% change in discount rate would have an overall impact of £164m. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.

We have:

- 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;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
- requested assurances from the auditor of West Midlands 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.

Our work on the pension fund is not yet fully complete. In particular we are awaiting to receive the IAS19 assurance letters from the auditors of West Midlands Pension Fund before we can complete our testing on valuation of the Local Government Pension Fund net liability.

In relation to the firefighters scheme, our auditor expert has provided assurance that the methodologies used by the actuary, GAD, to establish assumptions will produce reasonable assumptions as at 31 March 2021, with the exception of the CPI inflation assumption, which is 0.1% pa below the expected range as at 31 March 2021. We are currently discussing this with our technical team to determine our response to this matter.

However, the audit work completed to date has not highlighted any issues in respect of the valuation of the pension fund net liability.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management’s approach	Audit Comments	Assessment
Land and Building valuations – £124.3m	<p>The Authority has £124.3m of Land and Buildings in use by the Authority. In addition there are Surplus Assets (£2.1m) and assets under construction which are mainly vehicle assets and equipment (£1.7m).</p> <p>Of these assets, some are specialised assets valued at depreciated replacement cost (DRC) at year end, as an estimate of current value. Infrastructure, community assets and assets under construction are held at historic cost. Residential homes are valued at fair value and those that are no longer in use are classified as surplus.</p> <p>All other assets are valued at current value, interpreted as existing use value (market value). The Authority has engaged an external valuer (Wilks Head and Eve) to complete the valuation of properties as at 31 March 2021.</p>	<p>We have:</p> <ul style="list-style-type: none"> - 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; - discussed with the valuer the basis on which the valuation was carried out to ensure that the requirements of the Code are met; - challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and - tested revaluations made during the year to see if they had been input correctly into the Authority’s asset register. <p>Our audit work on the valuation of land and buildings remains in progress,, however, our audit work to date has not identified any significant reporting issues.</p>	TBC

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																																				
<p>Fire Fighter Net pension liability- £1,801.4m</p>	<p>The Authority's net pension liability for Fire Fighter pensions at 31 March 2021 is £1,801.4m (P/Y 1,655.0m) comprising of all Firefighter Pension schemes. The Authority uses GAD to provide actuarial valuations of the Authority's assets and liabilities derived from these schemes.</p> <p>The results have been calculated by carrying out a detailed valuation of the most recent data provided to the actuary (as at 31 March 2020), which has then been rolled forward to reflect the position as at 2021. In particular the actuary has allowed for service accrued between 1 April 2020 and 31 March 2021 and known pension and salary increases that would have applied.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<p>We have</p> <ul style="list-style-type: none"> Undertaken an assessment of management's expert; Reviewed and assessed the actuary's roll forward approach taken; Used an auditor's expert (PWC) to assess the actuary and assumptions made by the actuary for both schemes; and reviewed Completeness and accuracy of the underlying information used to determine the estimate The impact of any changes to valuation method Reasonableness of the Authority's share of LPS pension assets. Reasonableness of increase/decrease in estimate Adequacy of disclosure of estimate in the financial statements. <p>* PWC stated that they were satisfied with GAD assumptions except for the CPI assumption which is 0.1% pa below the expected range which is more optimistic than PWC would expect to see. We are currently considering the impact on our work.</p>	TBC																																				
		<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value 2020</th> <th>Actuary Value 2021</th> <th>PwC range</th> <th>Impact of year on year change in assumption</th> <th></th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.25%</td> <td>2.00%</td> <td>1.95% to 2.05%.</td> <td>Increases the liability. Per PWC the assumptions sit towards the bottom (prudent) end of our expected range as at 31 March 2021 and hence are considered to be reasonable</td> <td>●</td> </tr> <tr> <td>Rate of CPI inflation</td> <td>2.0%</td> <td>2.40%</td> <td>2.85% to 2.80%</td> <td>Increases the liability.</td> <td>tbc</td> </tr> <tr> <td>Salary growth: GAD have set the assumption at 1.75% p.a. above CPI</td> <td>4.0%</td> <td>4.15%</td> <td>1.00% above RPI-CPI (Pension Increase Rate</td> <td>Increases the liability.</td> <td>tbc</td> </tr> <tr> <td>Life expectancy –males- longevity at 60 for future pensioners</td> <td>23.0 years</td> <td>23.1 years</td> <td>20.4 – 22.7 years/ 21/8 – 24.3 years</td> <td></td> <td>●</td> </tr> <tr> <td>Life expectancy – Females longevity at 60 for future pensioners</td> <td>23.0 years</td> <td>23.1 years</td> <td>23.2 – 24.9 years/ 25.2 – 26.7 years</td> <td></td> <td>●</td> </tr> </tbody> </table>	Assumption	Actuary Value 2020	Actuary Value 2021	PwC range	Impact of year on year change in assumption		Discount rate	2.25%	2.00%	1.95% to 2.05%.	Increases the liability. Per PWC the assumptions sit towards the bottom (prudent) end of our expected range as at 31 March 2021 and hence are considered to be reasonable	●	Rate of CPI inflation	2.0%	2.40%	2.85% to 2.80%	Increases the liability.	tbc	Salary growth: GAD have set the assumption at 1.75% p.a. above CPI	4.0%	4.15%	1.00% above RPI-CPI (Pension Increase Rate	Increases the liability.	tbc	Life expectancy –males- longevity at 60 for future pensioners	23.0 years	23.1 years	20.4 – 22.7 years/ 21/8 – 24.3 years		●	Life expectancy – Females longevity at 60 for future pensioners	23.0 years	23.1 years	23.2 – 24.9 years/ 25.2 – 26.7 years		●	
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Assessment

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- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Light Purple We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																					
LGPS liability – £64.8 m	<p>The Authority's net pension liability at 31 March 2021 is £64.8m. This is in relation to the Authority's obligations as a member employer of the West Midlands Pension Fund, part of the Local Government Pension Scheme. The Authority uses Barnett Waddingham to provide actuarial valuations of the Authority's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>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 return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £23.2m increase in the liability during 20/21.</p>	<p>We have</p> <ul style="list-style-type: none"> Undertaken an assessment of management's expert; Reviewed and assessed the actuary's roll forward approach taken; Used an auditor's expert (PWC) to assess the actuary and assumptions made by the actuary; and reviewed 	TBC																					
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Assessment

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- Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit & Risk Committee. We have not been made aware of any instances of material fraud in the period and no other 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 letter of representation has been requested from the Authority, which is included in the Audit & Risk Committee papers.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send several confirmation requests to the Authority's banking partners and investment counterparties. This permission was granted and the requests were sent and none are outstanding.
Accounting practices	We have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement 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.

2. Financial Statements - other communication requirements



Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Authority recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none">• the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Authority meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none">• the nature of the Authority and the environment in which it operates• the Authority's financial reporting framework• the Authority's system of internal control for identifying events or conditions relevant to going concern• management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none">• a material uncertainty related to going concern has not been identified• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (comprising 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> <p>We plan to issue an unmodified opinion in this respect – refer to agenda papers.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none">• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,• if we have applied any of our statutory powers or duties.• where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. <p>We have nothing to report on these matters.</p>



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
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>We anticipate that group instructions in this respect will not be issued until later in the year. However, based on our understanding of the process from previous years our expectation is that the Authority will be below the threshold and we will therefore not be required to carry out detailed procedures.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2020/21 audit of West Midlands Fire and Rescue Authority in the audit report, as detailed in Appendix D as a result of the incomplete Value for Money work (please note, current regulations allow for a period of three months after the closure of the financial statements audit to complete work on the Value for Money conclusion.) and the completion of the WGA submission.</p>

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

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

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

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

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix D to this report. We expect to issue our Auditor's Annual Report by 30 December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risk set out in the table below. Our work on this risk is underway and an update is set out below.

Risk of significant weakness

Work performed to date

We have not identified Any risks of significant weaknesses from our initial planning work.

We have reviewed your annual governance statement as part of our audit procedures and this has not identified any new risks. We will continue our review of your arrangements following completion of opinion audit and will report by the December deadline agreed with management and in line with the timetable set by the national audit office.

4. Independence and ethics

We confirm that 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 Authority's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

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. We have provided no non-audit services.

Appendices

A. Follow up of prior year recommendations

Under the auditing standards we are required to report to you on the Authority's progress against any audit recommendations made in prior periods. We are pleased to note that there were no recommendations raised during the prior period, This is reflective of the robust control environment in place at the Authority.

B. Audit Adjustments

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

Impact of adjusted misstatements, PY unadjusted misstatements and misclassification and disclosure changes.

Our audit work is not yet complete, however we have not uncovered a requirement for any adjusting entries or noted any above trivial unadjusted misstatements.

Furthermore, aside from a small number of clerical issues which are typical of any accounts preparation process, we note no misclassification or disclosure amendments which we are required to bring to your attention. This is indicative of the robust control environment in place at the Authority.

C. Fees

We confirm below our final fees charged for the audit and provision of non-audit services (please note, there are no reconciling items between the fees per our audit scoping letter and AFR, and the disclosures at note 33 of the draft financial statements).

Audit fees	Proposed fee	Final fee
Authority Audit	£45,500	£45,500
Total audit fees (excluding VAT)	£45,500	£45,500

Reconciliation to Note 30 in the financial statements

Fee per note 30: £000

External audit fees 45 (as above)

Additional fees 10 relate to 2019/20 audit year

D. Audit letter in respect of delayed VFM work

Note that this letter does not form part of our formal communications under ISA 260 (Communication with Those Charged with Governance) but is included here for ease of reference.

Catherine Miks
Audit and Risk Committee Chair
Fire Service Headquarters,
99 Vauxhall Road,
Nechells,
Birmingham
B7 4HW

Dear Catherine, Chair of Audit and Risk Committee as TCWG,

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 December 2021.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Avtar Sohal

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

