

Annual governance report

West Midlands Fire and Rescue Authority

Audit 2010/11



Contents

Key messages	3
Audit opinion and financial statements	3
Value for money	3
Before I complete my audit	4
Financial statements	5
Opinion on the financial statements	5
Risks	5
Errors in the financial statements	6
Value for money	12
Appendix 1 – Draft audit report	14
Appendix 2 – Amendments to the draft financial statements	17
Appendix 3 – Glossary	19
Appendix 4 – Action plan	22

Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Audit opinion and financial statements

I have substantially completed my audit work and anticipate issuing an unqualified opinion on your financial statements.

This was the first year of implementation of International Financial Reporting Standards (IFRS) which has resulted in a number of changes to accounting requirements. As a result of my audit, management have adjusted the financial statements for a number of errors within the disclosure notes and other statements. None of the adjustments had any impact on the overall reported performance or net assets of the Authority.

The material changes were to:

- disclose separately (as an exceptional item) the change in past service cost caused by basing future annual pension increases on the Consumer Price Index (CPI) rather than the Retail Price Index (RPI)
- eliminate accumulated depreciation (£31.9m) which had not been removed from the accounts when assets were revalued. The net book value (NBV) in the accounts was correct as the initial valuation of the asset was also increased to balance the NBV of the assets to the valuation provided by the Valuer.

Value for money

I intend to issue an unqualified value for money conclusion stating that:

- The Authority has proper arrangements in place to secure financial resilience.
- The Authority has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2010/11.

I ask you to confirm to me

I ask the Authority to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
 - approve the letter of representation, provided alongside this report, on behalf of the Authority before I issue my opinion and conclusion; and
 - agree your response to the proposed action plan (Appendix 5).
-

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As Authority members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

Risks

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
1. Implementation of IFRS Implementation of IFRS is a significant challenge for the Authority.	The Authority did realise that this was a significant challenge and employed a temporary member of staff to help with the implementation. All relevant changes were considered, although my audit identified that the guidance in the Code had not always been followed.
2. Fixed Asset Valuations The Authority is planning to undertake a full valuation of assets for 2010/11 to aid with the implementation of IFRS	The Authority has successfully revalued the assets. However the accounting treatment for accumulated depreciation was incorrect although this did not affect the NBV in the accounts.
3. Brought forward balances In documenting your financial systems, we were unable to confirm if there were controls in place to check the accuracy	We verified (by substantive testing) that the balances brought forward are correctly stated.

Key audit risk

of the brought forward balances

The Authority places reliance on the Sandwell MBC ledger to accurately carry forward balances.

Finding

Errors in the financial statements

There were a large number of errors in the financial statements this year, the majority of which were relatively minor. None of these resulting adjustments has affected the Authority's overall reported financial performance or net assets. The errors were mainly due to first time implementation of IFRS, which has been a major challenge as not only does it affect the current year but required restatements of figures for the previous years as well. IFRS accounting required a number of changes to the statements of accounts, which the Authority had considered and implemented. However my audit identified that the guidance provided by the Code of Practice had not always been followed.

I am required under auditing standards (ISA260) to report all errors I have identified above our trivial threshold (£27,000) to management and to consider the need to report them to those charged with governance. I have summarised all non-trivial errors in a report which has been shared with the Director of Finance and Procurement and Chair of the Audit Committee. Officers have agreed to amend the accounts for all non trivial errors. I have not commented here on trivial or purely presentational errors that have been corrected during the course of the audit.

The only material amendments (see Appendix 2 for further detail) were as follows.

- The authority had not disclosed separately on the face of the Comprehensive Income and Expenditure Statement a change in past service cost of £130.7million caused by basing future annual pension increases on the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) although it was mentioned in the explanatory foreword and identified separately in the pension note. The change from RPI to CPI was dictated by central government, and the size of the resulting adjustment was such that it needed to be disclosed separately as an exceptional item on the face of the Comprehensive Income and Expenditure Statement to avoid the risk of users of the accounts misunderstanding the authority's reported financial performance
- the Authority had not eliminated accumulated depreciation (£31.9m) from its balance sheet when assets were revalued. When assets are revalued, any depreciation which has been charged prior to the revaluation should be removed from the accounts with the asset then appearing in the accounts at the new valuation and depreciation charged on this amount, but the authority had failed to do this. The net book value (NBV) in the accounts was correct as the initial valuation of the asset had also been increased to balance the NBV of the assets to the valuation provided by the valuer.
- The Movement in Reserves Statement was not included for 2009/10. The Code requires that comparatives are included for all statements and most notes.

Financial statements

Weaknesses in internal control

My audit noted the following weaknesses in internal control.

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Internal control issues and our findings

Description of weakness	Potential effect	Management action
1. IT risk assessment I note the following issues arising from my work on IT: <ul style="list-style-type: none">Currently staff do not have to acknowledge that they have read or understood security policies and updates.There has not been a review of user access to IT systems in 2010/2011.	<p>As a result staff may contravene policies resulting in potential data loss and exposure.</p> <p>Without such a review taking place WMFRA cannot prove that user access is controlled and appropriate. There is a risk that unauthorised/restricted users could be accessing information.</p>	<p>R1 Procedures should be introduced to ensure that staff acknowledge that they have read and understood security policies and updates.</p> <p>R2 Ensure a review of user access is undertaken.</p>
2. Journals WMFRA has strengthened controls over journals. We confirmed that the Principal Accountant now authorises all journals. However those that are created by him are not	Incorrect journals may be processed.	<p>R3 Journals created by the Principal Accountant should be independently reviewed.</p>

Description of weakness	Potential effect	Management action
independently reviewed.		
<p>3. Loans</p> <p>Last year my Annual Governance report made the following point which remained valid in respect of the 2010/11 accounts, although I understand that work has now been carried out to provide the analysis required for future years. The Authority is required to analyse its loans in its accounts between those which are repayable within one year and those which are repayable over a longer period. The Authority has been unable to comply with this requirement because its treasury management function is undertaken by Sandwell MBC and loans cannot be separately identified for WMFRA. All loans are shown in the balance sheet as being liable to be repaid after longer than one year. However the Authority has now requested that all future loans be in the name of WMFRA. Future loans will therefore be separately identifiable and the required analysis will be available.</p>	Incorrect analysis of loans in the statement of accounts	<p>R4 Ensure that future years' accounts incorporate the analysis of loans which has now been completed.</p>

Financial statements

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

These are the issues I want to raise with you.

I identified a significant number of errors in the financial statements this year as noted above and have reported these (other than those of a trivial nature) to management.

Accounting practices, policies, estimates and financial closures

Issue	Findings and recommendations
<p>1. Errors in the accounts</p> <p>I identified a large number of errors in the financial statements this year, the majority of which were relatively minor, and reported these (other than those of a trivial nature) to management. Issues included:</p> <ul style="list-style-type: none">■ accounting policies■ officers' remuneration note■ members' remuneration note■ audit fees note■ consistency and referencing errors■ The Annual Governance Statement shows all major areas of weakness found by internal audit even though these were not significant	<p>IFRS has been a major challenge for Local Government bodies this year. This has impacted on the timescale and resources required for accounts preparation. The Authority has considered all relevant areas. However a number of changes were required at audit to correct for non compliance with the Code. Ensuring that the accounts and working papers are thoroughly reviewed for compliance to the Code, prior to submission would ensure some of the issues noted at audit are noticed prior to submission of the accounts to us.</p> <p>The material errors are detailed in Appendix 2 and the remaining non-material disclosure and presentational issues were discussed with officers during the course of the audit and have been summarised in a report which has been shared with the Director of Finance and Procurement and Chair of the Audit Committee</p> <p>Officers have agreed to change the accounts for all errors found.</p>

Issue	Findings and recommendations
<p>2. Tailoring of model accounts</p> <p>The Authority used the standard model for its accounts and has not sufficiently tailored the template. For example:</p> <ul style="list-style-type: none"> ▪ the accounts contained a number of nil lines ▪ the notes make general statements without putting in context for WMFRA. 	<p>Officers have made changes to all those areas which were considered to be significant. However we agreed that some minor changes (such as deletion on nil lines) will be implemented next year.</p>
<p>3. Liabilities for legal cases</p> <p>The authority has set up an earmarked reserve of £150,000 for legal cases and it was not clear whether the treatment is correct or whether a provision would be more appropriate.</p>	<p>Given the value is well below materiality of £2.7m, officers have agreed to re-consider the treatment for 2011/12.</p>
<p>4. Segmental reporting</p> <p>The Authority has complied in most respects with the new requirement to analyse its financial performance by operating segment. However, the segments it has chosen to report do not correspond with those used for internal reporting, which is what is intended by the Code. Internal reporting is by directorate, whereas only two segments are used in the accounts.</p>	<p>The Authority should review its approach to segmental reporting for 2011/12.</p>
<p>R5 The Authority should strengthen quality assurance arrangements to ensure that the accounts and in particular the notes are accurately stated.</p> <p>R6 The Authority should look to further tailor the standard template in 2011/12 and review the contents of the accounts for reasonableness.</p>	

R7 The Authority should review its approach to segmental reporting for 2011/12.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. A draft letter of representation has been sent for your review and agreement.

Value for money

I am required to conclude whether the Authority put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Authority had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	I am satisfied that the Authority has adequate arrangements in place. My assessment is based on the review of the Authority's arrangements in place for managing its financial position, its performance in 2010/11 and the financial plans in place for 2011/12.
2. Securing economy efficiency and effectiveness The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	I am satisfied that the Authority has adequate arrangements in place. My assessment is based on review of the Authority's past arrangements and performance in securing economy, efficiency and effectiveness. In addition I have carried out a specific reviews in 2010/11 of the Building Upon Success project.

Criterion	Findings
<p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST MIDLANDS FIRE AND RESCUE AUTHORITY

Opinion on the Authority and Pension Fund accounting statements

I have audited the accounting statements and the firefighters' pension fund accounting statements of West Midlands Fire and Rescue Authority for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The firefighters' pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of West Midlands Fire and Rescue Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of the Treasurer's Responsibilities, the Treasurer is responsible for the preparation of the Authority's Statement of Accounts, including the firefighters' pension fund accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and the Pension Fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of West Midlands Fire and Rescue Authority's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the financial transactions of the firefighters' pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure 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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself 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 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, West Midlands Fire and Rescue Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts, including the firefighters' pension fund accounting statements, of West Midlands Fire and Rescue Authority in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

John Gregory

District Auditor

XX September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
The Authority did not disclose a highly material unusual transaction separately on the face of the comprehensive income and expenditure accounts as required by the Code – although it was mentioned in the explanatory foreword and identified in the pensions note.	Disclose separately a change in past service cost of £130.7million caused by basing annual pension increases on the Consumer Price Index (CPI) rather than the Retail Price Index (RPI)				
The Authority has not compiled with IAS 16 – Property, Plant and equipment.	The Authority had not eliminated accumulated depreciation (£31.9m) on the revaluation of its assets. The net book value (NBV) in the accounts is correct as the initial valuation of the asset was also				

increased to balance the NBV of the assets to the valuation provided by the Valuer.

Comparatives were also incorrect.

Movement in Reserves Statement

The Movement in Reserves Statement was not included for 2009/10. The Code requires that comparatives to be included.

Appendix 3 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor’s conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;

- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 4 – Action plan

Recommendations

Recommendation 1

Procedures should be introduced to ensure that staff acknowledge that they have read and understood security policies and updates.

Responsibility	Finance Manager
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Priority	
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Date	October 2011
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Comments	Staff within Financial Management will be asked to acknowledge they have read and understood IT security policies.
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Recommendation 2

Ensure a review of user access is undertaken.

Responsibility	Finance Manager
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Priority	
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Date	October 2011
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Comments	Finance Manger will correspond with Sandwell Business Services at Sandwell MBC regarding the review of user access.
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Recommendation 3

Journals created by the Principal Accountant should be independently reviewed.

Responsibility	Finance Manager
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Priority	
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Date	October 2011
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Comments	Finance Manger to review Principal Accountant journals from 1 st April 2011.
Recommendation 4	
Ensure that future years' accounts incorporate the analysis of loans which has now been completed.	
Responsibility	Finance Manager
Priority	
Date	June 2011
Comments	Completed
Recommendation 5	
The Authority should strengthen quality assurance arrangements to ensure that the accounts and in particular the notes are accurately stated.	
Responsibility	Finance Manager
Priority	
Date	As per the 2011/2012 Closedown Timetable
Comments	Will be considered during the closedown of accounts for 2011/2012.
Recommendation 6	
The Authority should look to further tailor the standard template in 2011/12 and review the contents of the accounts for reasonableness.	
Responsibility	Finance Manager
Priority	
Date	As per the 2011/2012 Closedown Timetable
Comments	Will be considered during the closedown of accounts for 2011/2012.
Recommendation 7	
The Authority should review its approach to segmental reporting for 2011/12.	
Responsibility	Finance Manager

Priority	
Date	As per the 2011/2012 Closedown Timetable
Comments	Will be considered during the closedown of accounts for 2011/2012.

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- any director/member or officer in their individual capacity; or
- any third party.

