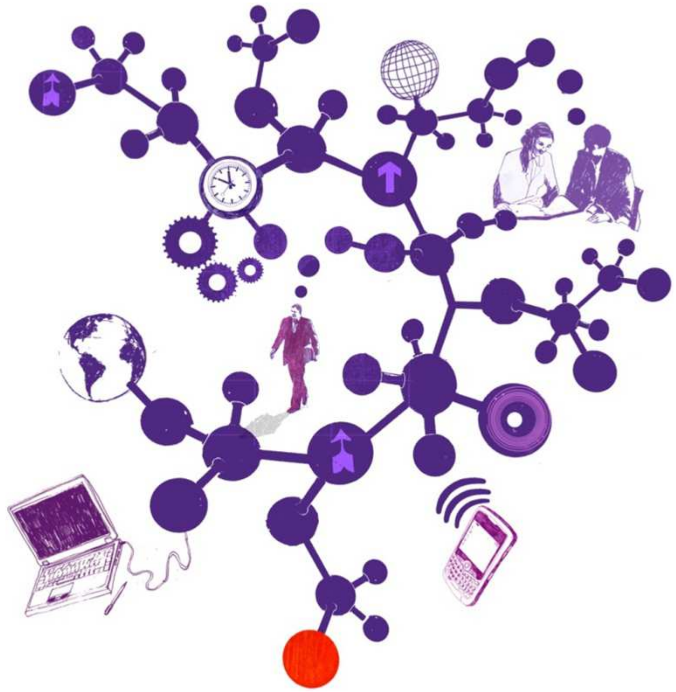
Audit Committee Update for West Midlands Fire & Rescue Authority

Year ended 31 March 2014

March 2014



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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 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 your business or any 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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Contents

Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a Fire Authority;
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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Progress to date

Work	Planned date	Complete?	Comments
2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Fire Authority setting out our proposed approach in order to give an opinion on the Fire Authority's 2013-14 financial statements.	January 2014	Yes	Presented to the March Audit Committee.
Interim accounts audit Our interim fieldwork visits include: • updating our review of the Fire Authority's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion.	December 2013 – March 2014	In progress	Key risks for 2013/14 will include: • The delivery of services within a reduced financial allocation, ensuring that budget reductions do not impact on services delivered. • Accounting for assets – valuation of the main Head Quarters building in light of the HS2 compulsory purchase notice and valuation of other specialised assets. We have undertaken early testing on the key risk areas within the financial statements. We meet quarterly with the S151 Officer and Director of Resources to discuss audit progress and developments within your Authority.
2013-14 final accounts audit Including: • audit of the 2013-14 financial statements • proposed opinion on the Fire Authority's accounts • proposed Value for Money conclusion.	June – September 2014	No	Not yet started

Progress to date

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2013/14 VfM conclusion requires conclusions on whether: • The organisation has proper arrangements in place for securing financial resilience. • The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	January – July 2014	In progress	Key risks for 2013/14 will include: • The ability of the Fire Authority to deliver savings required whilst still maintaining services and performance information. • The impact in changes to Senior Management on the Fire Authority's overall strategic direction. • Maintaining services delivery around potential strike action and negotiations with the Fire Brigade Unions over pension issues. • The use of assets, in particular, the Fire HQ in light of current occupancy levels and decisions following the communication with HS2.

Emerging issues and developments

Sector issues – Transformation Funds Bid Process

2015/16 Fire and Rescue Authority Transformation Funds Bid Process

The government's recent 2013 spending round announced £75 million of funds for 2015/16 to be made available to fire and rescue authorities on a bid-for basis. The funds will support transformational change and delivery of further efficiencies by fire and rescue authorities.

The funds are to deliver the types of transformative change identified by the Government in its Spending Round document, as well as opportunities identified by Sir Ken Knight in his independent review of the sector 'Facing the Future: findings from the review of efficiencies and operations in fire and rescue authorities in England', in particular:

- encouraging greater collaboration;
- improving local accountability;
- prioritising prevention and protection; and
- promoting asset transformation/ other efficiencies.

The competitive bid process itself was announced and launched in Spring 2014 and grant funding will be payable in April 2015. Details can be found at: https://www.gov.uk/government/consultations/fire-and-rescue-authorities-transformation-funds-for-2015-to-2016-bidding-process . The £75 million consists of £30 million of resource funding to support transformational change together with a £45 million capital fire efficiency incentive fund. Both funds are covered by the bid process on which the Department for Communities and Local Government is consulting. There will be no separate 'capital grant' for 2015/16.

Challenge questions:

- Did the Authority submit a response to the consultation which ran during December 2013 and January 2014?
- Has the Authority been successful in securing funds through this bid process and if so, are there plans in place to confirm that the bid criteria are met?

Emerging issues and developments

Sector issues – Firefighters' Pension Scheme

Proposed increases to employee contribution rates from 1 April 2014

From 29 November 2013 to 10 January 2014, the Government undertook a consultation process seeking views on the proposed increase in employee contribution rates from 1 April 2014 for members of the Firefighters' Pension Scheme (1992) and the New Firefighters' Pension Scheme (2006).

The Department previously announced employee contribution increases for 2012/13 and 2013/14. The contribution increases sought to generate an increased cumulative yield of 1.92 percentage points, on average, across the two firefighters' pension schemes. This was lower than the cumulative increase of 2.56 percentage points seen by other public service pension schemes over the same period.

The Government is proposing that the employee contribution tariffs from 1 April 2014 should deliver a 1.28 percentage point increase, on average, across the two firefighters' pension schemes, to help rebalance costs between what employee and taxpayers pay into the scheme which currently stands at £1 (employee) to £5 (taxpayer). The proposals will lead to a cumulative 3.2 percentage point increase from 2012/13 to 2014/15, which is in line with the Government's intention to phase in increases to employee contribution rates by 3.2 percentage points, on average, over three years.

Further information on the proposals can be found at:
https://www.gov.uk/government/consultations/firefighters-pension-scheme-1992-and-new-firefighters-pension-scheme-2006

This is for information only

Emerging issues and developments

Governance issues

Local Audit and Accountability Act – Authorities choosing their auditors is one step closer

The Local Audit and Accountability Act received Royal Assent on 30 January 2014.

Key points

Amongst other things:

- the Act makes provision for the closure of the Audit Commission on 31 March 2015;
- arrangements are being worked through to transfer residual Audit Commission responsibilities to new organisations;
- there will be a new framework for local public audit due to start when the Commission's current contracts with audit suppliers end in 2016/17, or potentially 2019/20 if all the contracts are extended;
- the National Audit Office will be responsible for the codes of audit practice and guidance, which set out the way in which auditors are to carry out their functions;
- Local Authority's will take responsibilities for choosing their own external auditors;
- recognised supervisory bodies (accountancy professional bodies) will register audit firms and auditors and will be required to have rules and practices in place that cover the eligibility of firms to be appointed as local auditors;
- Local Authority's will be required to establish an auditor panel which must advise the authority on the maintenance of an independent relationship with the local auditor appointed to audit its accounts;
- existing rights around inspection of documents, the right to make an objection at audit and for declaring an item of account unlawful are in line with current arrangements;
- transparency measures give citizens the right to film and tweet from any local government body meeting.

Issues to consider/challenge questions:

- Have members considered the implications of the Local Audit and Accountability Act for the Authority's future external audit arrangements?

Emerging issues and developments

Governance issues

Alternative delivery models in local government – are you making the most of them?

This report: http://www.grant-thornton.co.uk/en/Publications/2014/Responding-to-the-challenge-alternative-delivery-models-in-local-government/ discusses the main alternative delivery models available to local government. These are based on our recent client survey and work with local government clients. It aims to assist others as they develop their options and implement innovation strategies.

Local government has increased the variety and number of alternative delivery models it uses in recent years including contracts and partnerships with other public bodies and private sector organisations, as well as developing new public sector and non-public sector entities. With financial austerity set to continue, it is important that local authorities continue innovating, if they are to remain financially resilient and commission better quality services at reduced cost.

This report is based on a brief client survey and work with local authority clients and:

- Outlines the main alternative delivery models available to local authorities
- Aims to assist other authorities as they develop their options and implement innovation strategies
- Considers aspects of risk.

Challenge question

- Our report includes a number of case studies summarising how public services are being delivered through alternative service models. Has the Authority reviewed these case studies and assessed whether there are similar opportunities available to it?
- Our report includes three short checklists on supporting innovation in service delivery, setting up a company and questions that members should ask officers when considering the development of a new delivery model. Are the checklists being considered as part of the development of the Authority's commissioning strategy?

Emerging issues and developments

Accounting and audit issues

Accounting for and financing the local government pension scheme costs

Accounting issues

The 2013/14 Code follows amendments to IAS 19 and changes the accounting requirements for defined benefit pension liabilities such as those arising from the local government pension scheme (LGPS). This is a change in accounting policy and will apply retrospectively.
The main changes we expect to see are:

- a reallocation of amounts charged in the comprehensive income and expenditure statement (CIES)
- more detailed disclosures.

We do not expect changes to balance sheet items (the net pension liability and pension reserve balance). This means that whilst we would expect the CIES to be restated, a third balance sheet is not required. Actuaries should be providing local authorities with the information they need to prepare the financial statements, including restated comparatives.

Financing issues

The amount to be charged to the general fund in a financial year is the amount that is payable for that financial year as set out in the actuary's rates and adjustments certificate. Some local authorities are considering paying pension fund contributions early in exchange for a discount but not charging the general fund until later.
Local authorities must be satisfied that the amounts charged to the general fund in a financial year are the amounts payable for that year. Where local authorities are considering making early payments, we would expect them to obtain legal advice (either internally or externally) to determine the amounts that are chargeable to the general fund. We would expect this to include consideration of:

- the actuary's opinion on the amounts that are payable by the local authority into the pension fund
- the agreement between the actuary and the local authority as to when these payments are to be made
- the wording in the rates and adjustments certificate setting out when amounts are payable for each financial year.

For example, if a local authority agrees to make a payment to the pension fund in a single year and proposes to charge this amount to the general fund over a three-year period, we would expect the rates and adjustments certificate to show, unambiguously, that the amount payable is spread over the three years.

Challenge questions:

- Is your local authority confident of getting the information from its actuary to meet the changes in the requirements for accounting for the LGPS (including restating the comparatives)?
- If your authority is considering making an early payment to the pension fund, has it set out a reasonable argument for how it proposes to charge this amount to the general fund? Is this supported by legal advice?

Emerging issues and developments

Accounting and audit issues

Changes to the Local Government Pension Scheme

The Public Service Pensions Bill received Royal Assent in April 2013, becoming the Public Service Pensions Act 2013 ('the Act'). The Act makes provision for new public service pension schemes to be established in England, Wales & Scotland. Consequent regulations have been laid to introduce changes to the LGPS in England and Wales from 1st April 2014. (The regulations for the changes in Scotland have not yet been laid and will only impact from 1 April 2015).

These introduce a number of changes including:

- a change from a final salary scheme to a career average scheme
- introduction of a 50/50 option whereby members can choose to reduce their contributions by 50% to receive 50% less benefit
- calculation of contributions based on actual salary which could lead to some staff with irregular patterns of working moving between contribution rate bandings on a regular basis
- changes in employee contribution rates and bandings
- transitional protection for people retiring within 10 years of 1 April 2014 (further regulations are still awaited.

The above changes have implications for all employers involved in the LGPS introducing required changes to their payroll systems to ensure pension contributions are calculated correctly. This has consequent implications for administering authorities to communicate with employers and consider how they will obtain assurance over the accuracy and completeness of contributions going forwards since the calculations are more complex going forwards and less predictable. In addition changes are also required to pension administration/payment systems as well as much more detailed processes around maintaining individual pension accounts for all members to ensure the correct payment of future pensions.
The Act also requires changes to the governance arrangements although regulations for the LGPS have not yet been laid for these and the changes in governance arrangements are not expected to be implemented until 1 April 2015.

Challenge questions

- Is the authority aware of the detailed requirements and their impact on its current payroll system and processes?
- Is the authority taking appropriate action to ensure implementation of the required changes to its payroll system and processes by 1 April 2014?
- Has the authority liaised with the administering authority over any changes they may need in the assurances provided over the completeness and accuracy of contributions?

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