



INFRASTRUCTURE, GOVERNMENT AND
HEALTHCARE

External Audit: Audit
Memorandum – Report
to those charged with
governance
(Draft – our audit is still
ongoing)

West Midlands Fire and
Rescue Authority

September 2006

AUDIT

Content

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and of Audited Bodies. This summarises the different responsibilities of the auditor and the audited body, and the limits on what the auditor can reasonably be expected to do. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Mike McDonagh who is the appointed auditor to the Authority, telephone 0121 232 3392, email michael.a.mcdonagh@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Team, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SU or by email to: complaints@audit-commission.gov.uk. Their telephone number is 020 7166 2349, textphone (minicom) 020 7630 0421.

Section one

Executive Summary

This Audit Memorandum, in this format for the Authority, sets out our key findings from the audit work that we have performed this year. It has been designed to support the opinions and conclusions that we are required to provide you with. It is a requirement of the Code of Audit Practice, issued by the Audit Commission, that we provide this summary of our work to those charged with governance (in this case the members) at the time when they are considering the financial statements.

Use of Resources (Section 2 of this report)

There are three conclusions we can reach, following our use of resources work. These are:

- the arrangements you have in place are adequate;
- the arrangements you have in place are largely adequate, but we wish to draw some matters to your attention;
- you do not have adequate arrangements in place.

This is the first year we have been required to provide a separate conclusion on these arrangements. Our work in this area is still ongoing, however, our initial findings indicate that the arrangements you have in place are adequate. We will include our detailed findings and constructive recommendations in our Annual Audit Letter.

Accounts and Statement of Internal Control (Section 3 of this report)

We have now completed our work on your accounts audit. We are proposing based on the information made available to us to date, to provide a clean opinion on your 2005/06 accounts. Appendix 1 provides you with a summary of the audit adjustments that have been made to the accounts as a result of the audit. We have provided you a confirmation that we have maintained our independence throughout the audit process, and are therefore in a position to provide your audit opinion.

In order to close down the accounts audit the following steps need to be completed:

- providing us with a response to our management representations letter. This has been included in Appendix 6 to this report. It asks you to confirm to us general matters, such as your overall understanding of your financial position;
- we can confirm that there are no uncorrected misstatements which we have to report to you; and
- we have provided you with confirmation in Appendix 3 that we have maintained our independence throughout the audit process, and are therefore in a position to provide your audit opinion.

Other work

If we are asked to do so, or if we identify a need for it, as auditors we are expected to perform other work as necessary to meet our responsibilities under the Audit Code of Practice. During 2005/06, we did not perform any such work as part of the audit.

Audit status

At the date of issue of this memorandum, our detailed audit work is substantially complete. If any adjustments are identified between the date of this report and the signing of the accounts, we will communicate these adjustments directly to the Chair of the Authority.

Once we have finalised our opinions and conclusions we will prepare our External Audit Annual Report to close our audit work for the 2005/06 year. This will feed into the Relationship Managers Annual Audit and Inspection Letter.

Use of resources

We are required to be satisfied that you have proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources. This judgement will be supported by the work undertaken as part of the pilot review in June 2006. This will be updated before we provide our final assessment by 30th September 2006. However, our initial findings indicate that the arrangements you have in place are adequate.

Introduction

Within our 2005/06 audit plan we outlined our requirement to complete this work to assess whether you have appropriate arrangements in place to ensure that your resources are deployed effectively. Our overall assessment will be based on your self-assessment, our cumulative audit knowledge and experience and specific work undertaken to assess adequacy of arrangements.

Assessment

This assessment has taken place for the first time in 2005/06 and provides an analysis of your performance against the 12 criteria published by the Audit Commission, as follows:

Code Criteria	
Managing and improving value for money	Setting strategic and operational objectives
Medium term financial planning and budgeting	Consultation with stakeholders
Managing spending within available resources	Monitoring and scrutiny of performance
Managing performance against budget	Data quality
Asset Management	System of internal control
Probity and propriety	Risk Management

We will report our detailed findings in our Annual Audit and Inspection Letter.

Accounts and Statement of Internal Control

We have completed the audit work on the accounts to deadline and propose to issue an unqualified audit opinion on 19th September 2006. Within this section we draw to your attention the representation letter that we are requesting you to provide us with. This includes key confirmations from you about how your accounts reflect your financial standing and legality of transactions. We have also provided you with a summary of the audit adjustments identified as well as suggestions regarding how this can be developed in the future.

Introduction

The table below outlines the six stage audit process we deployed for our review of your financial statements. The tasks we performed are split between those which are undertaken pre, during and post-accounts production. We have summarised below tasks which we have performed as part of accounts finalisation:

Work Performed	Accounts production stage		
	Pre	During	Post
1. Business Understanding: review your operations.	✓	✓	-
2. Controls: assess the control framework.	✓	-	-
3. Accounting standards: agree the impact of any new accounting standards.	✓	✓	-
4. Accounts Production: review the accounts production process.	✓	✓	✓
5. Testing: test and confirm material or significant balances and disclosures.	-	✓	-
6. Representations & opinions : seek and provide representations before issuing our opinions.	✓	✓	✓

Accounts Production

We have summarised below the three key elements of the audit process.

Element	Commentary
Completeness of draft accounts	We received a complete set of draft accounts on 11 th June 2006, which were approved by the Authority before the statutory deadline of 30 th June 2006. The draft accounts were not subject to any material adjustments.
Quality of supporting working papers	The documentation and working papers you provided were of a good overall standard.
Response to audit queries	You dealt with our audit queries quickly and efficiently. We have had a closing meeting with the Finance Manager to discuss the issues arising from our audit.

Opinions and Representations

As part of the financial statements finalisation process we are required to provide you with representations concerning both our independence and ability to act as your auditors. We have provided an example within Appendix 3 to this report.

You are also required to provide us with representation on specific matters such as your financial standing, whether the transactions within the accounts are legal and unaffected by fraud. We have provided an example within Appendix 4 to this report.

Accounts and Statement of Internal Control (continued)

Summary of Audit Adjustments

We have summarised below the adjustments identified following the completion of the 2005/06 year end audit:

Overall impact	Adjustments identified
Changes to the prime financial statements	We identified no audit adjustments to the prime financial statements.
Changes to the notes to the accounts	There were a number of changes to the notes to the accounts, including disclosing the details of the new Headquarters and the inclusion of a note explaining the change to the fire-fighters pension scheme in 2006/07.
Presentational adjustments	There were a number of minor presentational adjustments required.

Once we have received your representations as outlined on page 4 we will issue our audit opinions.

Except for our commentary above, we do not have any other matters that we wish to draw to your attention prior to issuing these opinions.

Appendix 1: Proposed Conclusion on 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 regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the Authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for other local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for other local authorities specified by the Audit Commission and published in July 2005, in all significant respects, West Midlands Fire and Rescue Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

Best Value Performance Plan

We issued our statutory report on the audit of the Authority's best value performance plan for the financial year 2005/06 on 22 December 2005. We did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

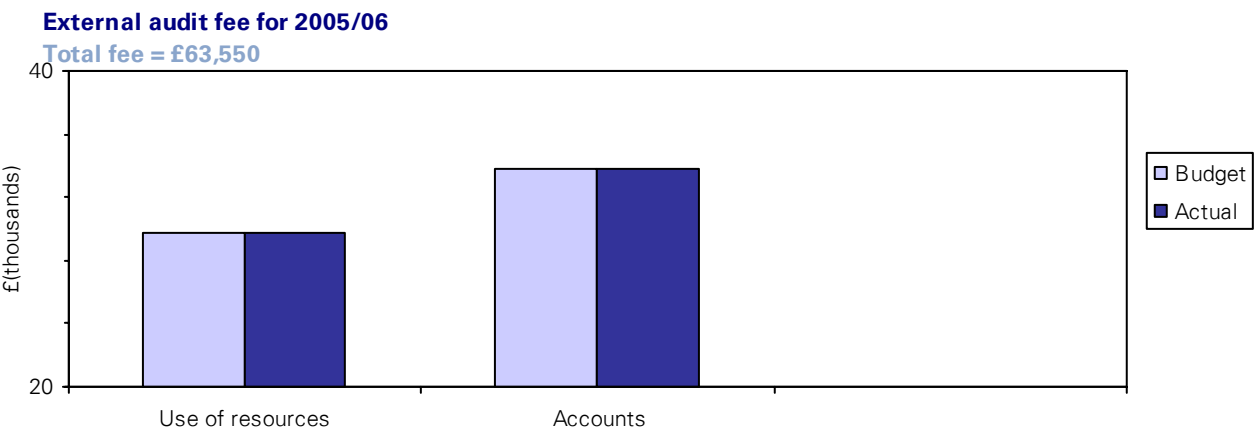
Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

KPMG LLP
Chartered Accountants
Birmingham
19th September 2006

Appendix 2: Audit fee and reports produced

This section summarises our overall arrangements for delivering your external audit in 2005/06. To make sure that there is openness between us and the Authority about the extent of our fee relationship with you, we have summarised below the out-turn against the 2005/06 agreed external audit fee:



The analysis above shows that our audit fee has been contained within the totals you have already approved

Appendix 3: ISA 260 (Independence confirmation) letter

Declaration of Independence and Objectivity 2005/06

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

“Auditors and their staff should exercise their professional judgement and act independently of both the Audit Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s *Annual Letter of Guidance and Standing Guidance* (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (‘Ethical Standards’).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence;

- The related safeguards that are in place; and
- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from this. These matters should be discussed with the audit committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm’s required independence. KPMG’s policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual (‘the Manual’). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG’s ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor Declaration

In relation to the audit of the financial statements of West Midlands Fire and Rescue Authority for the financial year ended 31 March 2006, we confirm that there were no relationships between KPMG LLP and the Council, its members and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement partner and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission’s requirements in relation to independence and objectivity.

The audit fee for the financial year included our work on the use of resources assessment, your systems and accounts audit and our mandated work. Fees in respect of non-audit work included taxation and consultancy advice. Details of our fees for the financial year are given in Appendix 2.

Appendix 4: Management representation letter

Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other officers of the Authority, the following representations given to you in connection with your audit of the financial statements for West Midlands Fire and Rescue Authority for the year ended 31 March 2006.

We confirm that all material related party transactions relevant to the Authority have been disclosed and we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Authority to conduct its business and therefore on the results and financial position disclosed in the financial statements for the year ended 31 March 2006.

We confirm that:

- We acknowledge our responsibility for the design and implementation of systems of internal control to prevent and detect fraud;
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- We have disclosed to you our knowledge of fraud or suspected fraud affecting the entity involving:
 - (i) Management;
 - (ii) Employees who have significant roles in internal control; or
 - (iii) Others where the fraud could have a material effect on the financial statements; and
- We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, regulators or others.

We confirm that the measurement methods, including related assumptions, used to determine fair values comply with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2005 and have been consistently applied. We also confirm that the disclosures relating to fair values are complete and appropriate and in accordance with the local government financial reporting framework.

We confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements.
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was approved by the Authority that considered and approved the financial statements on *[Date]*

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Yours faithfully

[Name of RFO]

[Date]