



INFRASTRUCTURE, GOVERNMENT AND  
HEALTHCARE

External Audit: Audit  
Memorandum – Report  
to those charged with  
governance

West Midlands Fire and  
Rescue Authority

September 2007

AUDIT

# Content

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Page

**Executive summary** 2

**Use of Resources** 4

**Accounts and Statement on Internal Control** 6

- Introduction
- Accounts production
- Opinions and certificates

**Appendices** 8

1. Proposed value for money opinion
2. Proposed audit report
3. 2006/07 accounts performance improvement observations
4. ISA 260 Declaration of independence and objectivity
5. Audit fee
6. Management representations letter

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 Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. 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 Michael McDonagh who is the engagement partner to the Authority, (telephone number 0121 335 2367, email address: 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 838 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 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

## Section one

# Executive summary

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### **Purpose of this document**

The Audit Commission's Code of Audit Practice (the Code) requires us to provide a summary of the work we have carried out to discharge our statutory audit responsibilities together with any governance issues we have identified. We report to those charged with governance (in this case the Fire Authority) at the time they are considering the financial statements.

We are also required to comply with an International Standard on Auditing which sets out our responsibilities for communicating with those charged with governance (ISA260).

This report meets the requirements of the Code and the ISA260. It summarises, for the benefit of the Fire Authority, the key issues identified during the course of our audit of the financial statements for the year ended 31 March 2007. It has been prepared for presentation to the Fire Authority on 24<sup>th</sup> September 2007.

This report does not duplicate significant matters previously communicated to those charged with governance. Once we have finalised our opinions and conclusions we will prepare our Annual Audit and Inspection Letter (jointly with your Audit Commission Relationship Manager) to close our audit work for the 2006/07 year.

### **Respective responsibilities of the appointed auditor and the audited body**

#### *Use of Resources*

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing the adequacy and effectiveness of these arrangements.

Our responsibility is to satisfy ourselves that the Authority has put in place proper arrangements by reviewing and, where appropriate, examining evidence that is relevant to its corporate performance management, and also its financial management arrangements and reporting on these arrangements.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Our findings are set out in more detail in section two of this report and our proposed conclusion is set out in Appendix 1.

#### *Accounts and Statement on Internal Control*

The Authority is responsible for putting into place systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income for the relevant financial year. The Authority is also responsible for preparing and publishing with its financial statements a statement on internal control.

We have now completed the audit in line with the deadline. We have not identified any issues in the course of the audit that are considered to be material. On receiving your management representations letter we therefore propose to issue an unqualified audit opinion. Our findings are set out in more detail in section three of this report and our proposed opinion on the accounts is presented in Appendix 2.

#### *Reports*

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to their attention in the course of the audit in order for it to be considered by the body concerned or brought to the attention of the public.

We did not issue a report in the public interest in 2006/07.

#### *Certificate*

We are required to 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. If there are any circumstances under which we cannot issue a certificate, then we are required to report them to those charged with governance and to issue a draft opinion on the financial statements.

There are no issues that have come to our attention during the course of the audit that would cause us to delay the issue of our certificate of completion of the audit.

**Continued overleaf**

## Executive summary

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### Audit status

At the date of issue of this memorandum our detailed audit work is substantially complete.

We now require from you a signed management representation letter, as set out in Appendix 6.

### Declaration of independence and objectivity

In relation to the audit of the financial statements of West Midlands Fire Authority for the financial year ending 31 March 2007, we confirm that there were no relationships between KPMG LLP and the Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead 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.

We have set out a more detailed declaration of our independence and objectivity in Appendix 4 in accordance with ISA 260.

### Fees

Our fee for the audit is £75,000. This has been contained within the totals agreed with you in our audit plan. We have undertaken additional work outside the main audit fee in respect of the new Fire Service Headquarters. The fee for this work is £7,500

## Section two

# Use of resources

**We are required to be satisfied that you have put proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources. We reach this conclusion by considering the various assessments we make during the year. Based upon these, we have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

### Introduction

Within our audit plan we outlined the various work streams we use to assess whether you have appropriate arrangements in place to ensure that your resources are deployed effectively. Our overall assessment has been based on your self assessment, our cumulative audit knowledge and specific work undertaken to assess adequacy of arrangements.

### UoR assessments

This assessment analyses your performance against the criteria published by the Audit Commission. The scoring of the themes for use of resources ranges from one to four. The results are summarised below and show the Authority is performing well:

Code criterion	Source of evidence	Score	Assessment
Setting strategic and operational objectives	Our assessment against these criteria is informed by the Audit Commission's latest Comprehensive Performance Assessment in 2005. We review the Key Lines of Enquiry (KLOEs) specified by the Audit Commission in each case.  The direction of travel assessment in 2006 and our continuing work with the Authority has also informed our assessment.		<b>Achieved</b>
Consultation with stakeholders			<b>Achieved</b>
Monitoring and scrutiny of performance			<b>Achieved</b>
Data quality	As noted in our 2006/07 Audit and Inspection Plan, we have reviewed the Authority's arrangements to ensure data quality. (The results of this work will be formally reported in our Annual Audit Letter.)		<b>Achieved</b>
System of internal control	Our assessment against these criteria is informed by our work on the Audit Commission's Use of Resources KLOEs, as reported in 2006. The relevant KLOEs and scores for these criteria are shown opposite.	KLOE 4.2: <b>level 2</b>	<b>Achieved</b>
Risk management		KLOE 4.1: <b>level 2</b>	<b>Achieved</b>
Managing and improving value for money		KLOE 5.2: <b>level 2</b>	<b>Achieved</b>
Medium term financial planning and budgeting		KLOE 2.1: <b>level 2</b>	<b>Achieved</b>
Managing spending within available resources		KLOE 3.1: <b>level 3</b>	<b>Achieved</b>
Managing performance against budgets		KLOE 2.2: <b>level 3</b>	<b>Achieved</b>
Asset management		KLOE 2.3: <b>level 2</b>	<b>Achieved</b>
Probity and propriety		KLOE 4.3: <b>level 3</b>	<b>Achieved</b>

Continued overleaf

## Section two

# Use of resources

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### 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 2006/07, the risks identified in our plan were covered as part of the Use Of Resources assessment and a separate piece of work on the new Headquarters.

## Accounts and Statement on Internal Control

**We have now completed the audit in line with the deadline. We have not identified any issues in the course of the audit that are considered to be material and all adjustments have been actioned. On receiving your management representations letter we therefore propose to issue an unqualified audit opinion.**

### Introduction

The tasks we perform in our review of your financial statements are split between those which are undertaken before, during and after the accounts production. We have summarised them below:

Work Performed	Accounts production stage		
	Before	During	After
<b>1. Business Understanding:</b> review your operations.	✓	✓	-
<b>2. Controls:</b> assess the control framework.	✓	-	-
<b>3. Prepared by client list:</b> issue our prepared by client request.	✓	-	-
<b>4. Accounting standards:</b> agree the impact of any new accounting standards.	✓	✓	-
<b>5. Accounts Production:</b> review the accounts production process.	✓	✓	✓
<b>6. Testing:</b> test and confirm material or significant balances and disclosures.	-	✓	-
<b>7. Representations &amp; opinions :</b> seek and provide representations before issuing our opinions.	✓	✓	✓

### Accounts Production

Your accounts production process is assessed as part of our UoR assessment. As part of the initial feedback on this process we have considered the production process against three criteria:

Element	Commentary
Completeness of draft accounts	We received a complete set of draft accounts on 8 <sup>th</sup> June 2007, which were approved by the Authority before the statutory deadline of 30 <sup>th</sup> June 2007. The draft accounts were not subject to any material adjustments. There were some adjustments to the pension fund entries in the accounts to reflect the new requirements as a result of further national Audit Commission guidance in August. These were disclosure adjustments and are not material.
Quality of supporting working papers	The documentation and working papers you provided were of a good overall standard.
Response to audit queries	Our audit queries were resolved in a timely manner. We have had a closing meeting with the Finance Manager to discuss the issues arising from our audit.

As a result of the audit we have raised a couple of minor performance improvement observations which are included within Appendix 3. There were no performance improvement observations arising from the 2005/06 audit to be followed up.

**Continued overleaf**

## Accounts and Statement on Internal Control (continued)

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### Testing

During the audit testing process we did not identify any material audit differences

### Opinions and Representations

As part of the financial statements finalisation process we are required to provide you with representations concerning our independence and ability to act as your auditors. We have provided this at Appendix 4.

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Head of Finance and Procurement on 15/08/07. We have also included a copy of this within Appendix 6. Once we have received your representations as outlined above we will proceed to issuing our audit opinion.

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

### Compliance with ISA260 Reporting Requirements

ISA260 requires us to communicate to those charged with governance "audit matters of governance interest that arise from the audit of the financial statements".

We have included within this Audit Memorandum:

- our views about the qualitative aspects of your accounting practices and financial reporting (Section Three); and
- the final draft of the management representations letter (Appendix 6).

We are also required to report:

- any material weaknesses in internal control identified during the audit;
- any matters specifically required by other ISAs (UK and Ireland) to be communicated to those charged with governance; and
- any other audit matters of governance interest.

There are no others matters which we wish to draw to the attention of those charged with governance

# Appendix 1: Proposed use of resources conclusion

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### 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 principal 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 performance improvement observations 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 principal Local Authorities specified by the Audit Commission, 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 2007.

### Best Value Performance Plan

We issued our statutory report on the audit of the Authority's best value performance plan for the financial year 2006/07 on 18 December 2006. We did not identify any matters to be reported to the Authority and did not make any performance improvement observations 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  
September 2007

## Appendix 2: Proposed audit report

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### Independent auditors' report to the Members of West Midlands Fire and Rescue Authority

#### Opinion on the financial statements

We have audited the financial statements of West Midlands Fire and Rescue Authority for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, 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. The financial statements and the Firefighters' pension fund accounting statements have been prepared under the accounting policies set out within them.

This report is made solely to West Midlands Fire and Rescue Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to West Midlands Fire and Rescue Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than West Midlands Fire and Rescue Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements, including the Firefighters' pension fund accounting statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements, and the Firefighters' pension fund accounting statements, present fairly the financial position of West Midlands Fire and Rescue Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

We review whether the Statement on Internal Control reflects compliance with CIPFA's guidance The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003 published in April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

#### Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### Opinion

In our opinion:

The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended; and

The Firefighters' pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial transactions of the police/ Firefighters' pension fund during the year ended 31 March 2007, and the amount and disposition of the fund's assets and liabilities as at 31 March 2007, other than liabilities to pay pensions and other benefits after the end of the scheme year.

KPMG LLP  
Chartered Accountants  
Birmingham

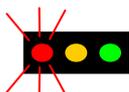
September 2007

## Appendix 3: Accounts performance improvement observations

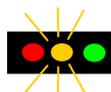
This appendix summarises the performance improvements that we have identified relating to the accounts production process while preparing this report. We have given each of our observations a risk rating (as explained below) and agreed with management what action you will need to take.

Priority rating for performance improvement observations raised

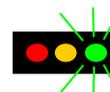
**Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.



**Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.



**Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.



Number	Risk	Issue and recommendation	Management response	Officer and due date
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1	● (three)	The Authority does not have an overarching IT security policy which sets out the approach to IT security.  The Authority should develop and IT security policy based on best practice guidelines set out in ISO/ IEC 17799. This policy should be discussed and approved by the corporate Board.		
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2	● (three)	Debtor and Creditor Control Account reconciliations are produced on a monthly basis, but we found no evidence of timely preparation and review.  Now that the problems relating to the reconciliation of SBS and Paris are resolved and a more regular cycle of debtor/ creditor reconciliations has been established, it should be ensured that debtor and creditor control account reconciliations are signed and dated as evidence of timely preparation and review.		
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### Appendix 4: ISA 260 Declaration of independence and objectivity

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#### Declaration of Independence and Objectivity 2006/07

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 his. These matters should be discussed with the Fire Authority.

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.

**Continued overleaf**

### **Appendix 4: ISA 260 Declaration of independence and objectivity (continued)**

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**

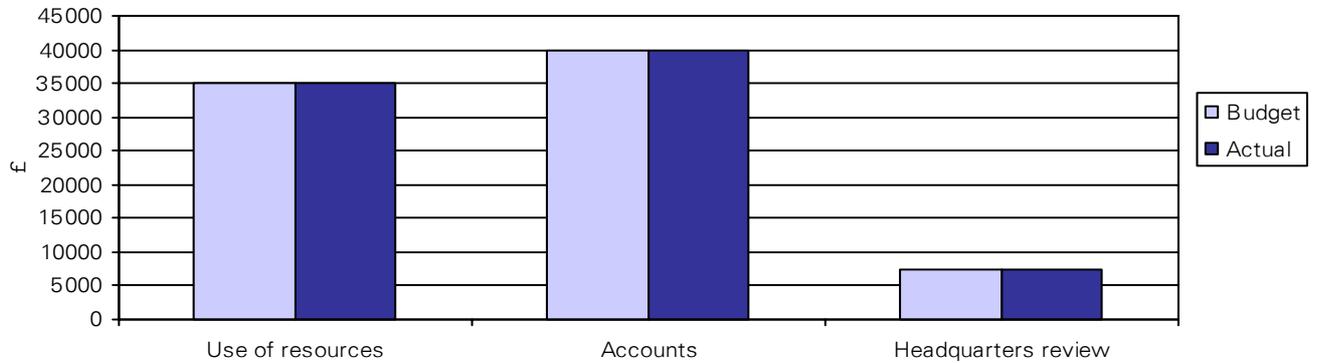
In relation to the audit of the financial statements of West Midlands Fire and Rescue Authority for the financial year ending 31 March 2007, we confirm that there were no relationships between KPMG LLP and the Authority, its directors and senior management and its affiliates that we consider may reasonably 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.

Details of our fees for the financial year are given in Appendix 5.

## Appendix 5 – audit fee

This section summarises our overall arrangements for delivering your external audit in 2006/07. 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 2006/07 agreed external audit fee:

### External audit fee for 2006/07



## Appendix 6: Draft management representation letter

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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 members 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 2007.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by West Midlands Fire and Rescue Authority has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Board meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Authority and that 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 to be disclosed in the financial statements for the year ended 31 March 2007.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. We have considered and approved the financial statements.

We confirm that we:

understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;

are responsible for the design and implementation of internal control to prevent and detect fraud and error;

have disclosed to you our knowledge of fraud or suspected fraud affecting the Authority involving:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements.

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, analysts, regulators or others;

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 confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures.

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; and

there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

## **Appendix 6: Draft management representation letter (continued)**

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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 tabled at the meeting of the Fire Authority on 24<sup>th</sup> September 2007.

Yours faithfully

[Name of RFO signing letter on behalf of Authority]

On behalf of the Authority