

The Annual Audit Letter for West Midlands Fire and Rescue Authority

Year ended 31 March 2017

October 2017

Richard Percival
Engagement Lead
T 0121 232 5434
E richard.d.percival@uk.gt.com

Emily Mayne
Senior Manager
T 0121 232 5309
E emily.j.mayne@uk.gt.com

Steph Quartermaine
Executive
T 0121 232 5238
E steph.quartermaine@uk.gt.com



Contents

Section	Page
1. Executive summary	3
2. Looking forward	4
3. Audit of the accounts	6
4. Value for Money conclusion	11
Appendices	
A Reports issued and fees	14

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at West Midlands Fire and Rescue Authority (the Authority) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Authority and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Authority's Audit Committee (as those charged with governance) in our Audit Findings Report on 24th July 2017. We also presented to the full Authority meeting on 18th September 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Authority's financial statements (section two)
- assess the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Authority's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Authority's financial statements on 24th July 2017.

Value for money conclusion

We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 24th July 2017.

Whole of government accounts

We completed work on the Authority's consolidation return following guidance issued by the NAO and issued an unqualified report on 21st August 2017.

Certificate

We certified that we had completed the audit of the accounts of West Midlands Fire and Rescue Authority in accordance with the requirements of the Code on 21st August 2017.

Key messages

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Authority's staff.

We reported in our Audit Findings Report the following key messages from our audit of the financial statements:

- The financial statements were, yet again, of good quality, delivered by an effective closedown process and supported by excellent working papers.
- Draft financial statements were presented for audit by 31 May 2017, a month earlier than the current submission deadline.
- Of particular note was the speed and efficiency queries were responded to by Authority staff across all departments.
- We did not identify any adjustments affecting the Authority's reported financial position.
- We did identify a relatively small number of disclosure errors, and requested some adjustments to improve the presentation of the financial statements.

Due to the excellent engagement between the finance and audit teams, the on-site work was delivered in a shorter timescale and our audit opinion was issued in July 2017. This is in line with the revised statutory deadline in 2017/18.

We focused our value for money conclusion work on the significant risks that we identified in the Authority's arrangements. In arriving at our conclusion, our main considerations were:

- Financial resilience – The Authority has historically managed its finances well and has consistently achieved savings targets. However delivering savings year on year becomes increasingly harder. Further savings of £9.415 million are required in the 4 years 2016/17 to 2019/20.

- Partnership working with other emergency services – The Authority is working in partnership with West Midlands Police and other emergency services where the opportunity arises. Development of the West Midlands Combined Authority Mayoral arrangements and the recent legislative changes is now forcing a faster paced change.

Based on our work we concluded that the Authority had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The changing landscape

The fire sector continues to face a period of unprecedented change. Following the announcement in January 2016 to transfer responsibility for fire and rescue to the Home Office, the Authority has responded well by engaging with partners and ensuring that key Senior Fire Leads are present at the table for any negotiations on how the service will be delivered in future as part of the wider service to local tax payers.

The Fire Authority is clear that it needs to drive forward the efficiency agenda. Reductions in funding, changes to legislation and the establishment of regional arrangements through the combined authority, provide a catalyst to challenge current delivery. Discussions with West Midlands Police and the seven Local Authorities within the West Midlands Combined Authority (WMCA) have been driven by the Chief Fire Officer who also holds the role of Chief Executive for Public Service Reform for the WMCA. These continuing discussions provide confidence that the Authority is taking a planned approach to optimising their joint use of resources and aligning overall oversight of services.

The Authority is well positioned financially to support the transformations required to deliver further savings. An Efficiency Plan has been developed, setting out £10 million of savings and increased income to meet the future financial gap. This includes £4 million from more flexibility in staff deployment, and a further £2 million from business development. Delivering this level of additional income will be challenging.

The Service is thinking creatively around how it optimises its resources. Using the skills and the capacity of Fire Officers in a planned way has allowed the Service to win contracts to deliver first response for elderly people following a fall. This supports the overall preventative agenda of the Authority by gaining access to vulnerable groups whilst also providing an income stream. The scale of the overall challenge to deliver efficient, effective services that meet the needs of the community in an environment of core funding reductions is significant but the management of the Service and the Fire Authority has demonstrated a commitment to meet this challenge.

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Authority's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Authority's accounts to be £2.26 million, which is 2 per cent of the Authority's gross revenue expenditure. We used this benchmark, as in our view, users of the Authority's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for senior officer remuneration and related party transactions.

We set a lower threshold of £113,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Authority's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Strategic Enabler of Finance and Resources are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Authority and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Authority's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts of West Midlands Fire and Rescue Authority

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Authority's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. Review of the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation. Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work did not identify any issues in respect of the valuation of the pension fund net liability.</p>
<p>Operating Expenses</p> <p>We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention, that being:</p> <ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> We have documented our understanding of processes and controls in place around the accounting for operating expenses. We have carried out a walkthrough test to confirm the operation of controls were in line with our documented understanding We have tested the completeness of the subsidiary system (purchase ledger) and how it interfaces with the ledger. We have documented the processes in place for month and year end accruals. We have performed cut off testing of purchase orders and goods received notes. We have reviewed a schedule of goods received that have not yet been invoiced and concluded that they are below materiality and as such do not present a risk to the financial statements. We have performed testing of a sample of operating expenses to ensure they have been accurately accounted for and in the correct period. 	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>

Audit of the accounts of West Midlands Fire and Rescue Authority

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Fire Pensions Benefits Payable Benefits improperly computed / Claims liability understated Payments to retiring officers are low in volume but high in value and the Authority is reliant on effective controls to ensure the payments made are valid and accurate.	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none">• We have documented our understanding of processes and key controls in place around the accounting for Fire Fighters Pensions.• We have carried out a walkthrough test to confirm the operation of controls is in line with our documented understanding.• We have agreed pension disclosures in the financial statements to supporting evidence.• We have tested a sample of Fire Fighters pension payments covering the period 1st April 2016 – 31st March 2017 to ensure they have been accurately accounted for and in the correct period.	Our audit work did not identify any significant issues in relation to the risk identified.
Employee remuneration We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention, that being: <ul style="list-style-type: none">• Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none">• Documented our understanding of processes and key controls in place around the accounting for Employee Remuneration.• Undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding• We have performed a review of monthly trend analysis of payments to identify and investigate any unusual or irregular movements.• We have reviewed the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and to the financial statements.• We have performed substantive testing of employees for accuracy of payment.	Our audit work did not identify any further significant issues in relation to the risk identified.

Audit of the accounts of West Midlands Fire and Rescue Authority

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Changes to the presentation of local authority financial statements</p> <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none">• documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements• reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure• reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)• tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements• reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Authority's accounts on 24th July 2017, in advance of the 30 September 2017 national deadline.

The financial statements submitted for audit were, yet again, of good quality, delivered by an effective closedown process and supported by excellent working papers. Draft financial statements were presented for audit by 31 May 2017, a month earlier than the current submission deadline. Of particular note was the speed and efficiency queries were responded to by Authority staff across all departments.

We did not identify any adjustments affecting the Authority's reported financial position. The draft financial statements for the year ended 31 March 2017 recorded total comprehensive expenditure of £306,874,000. This overall deficit was mainly due to changes in the valuation of the pension liability in 2016/17. We did identify a relatively small number of disclosure errors, and requested some adjustments to improve the presentation of the financial statements.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Authority to the Authority's Audit Committee on 24th July 2017.

Annual Governance Statement and Narrative Report

We are required to review the Authority's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Authority and with our knowledge of the Authority.

Whole of Government Accounts (WGA)

We carried out work on the Authority's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider on 21st August 2017.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Authority's accounts and to raise objections received in relation to the accounts.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in the table overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Financial resilience</p> <p>The Authority has historically managed its finances well and has consistently achieved savings targets. It is on course to deliver the 2016/17 budget. However delivering savings year on year becomes increasingly harder. Further savings of £9.415 million are required in the 4 years 2016/17 – 2019/20.</p> <p>This links to the Authority's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>	<p>We have reviewed the Authority's Medium Term Financial Strategy (MTFS) and financial monitoring reports, assessing the assumptions used.</p>	<p>We are satisfied that information on the Authority's financial position is reported to those charged with governance on a periodic basis and in sufficient detail to allow key decision makers to direct the organisation in the achievement of the three E's. We did not identify any significant weakness in the medium term strategy. The strategy incorporates both financial and non-financial data and acknowledges the funding restraints the authority faces both now and in the future.</p> <p>In December 2016 the Authority received its provisional finance settlement for the three years to 2019/20. Broadly this indicated that central funding will be reduced by £10 million between 2016/17 and 2019/20. The Authority's proposed budget of £94.8 million for 2017/18 has been developed to deliver the vision, priorities, and outcomes set out in The Plan. The main assumption is the annual increase in the rate of Council Tax income by 1.99%. The long term forecast also takes in to account general inflation and price increases (c1% per annum), pay awards and pensions (c1% per annum) and rental increases (c2% per annum). These appear reasonable based on our understanding of the wider economy.</p> <p>To enhance the robustness of the MTFS projections, sensitivity analysis considers the change in key components of the budget. The Authority has also considered the impact of the 100% Business Rate Retention pilot in the West Midlands and fed into the consultation. The Authority is taking a wider view on economic growth impact for the whole area, rather than their own local impact demonstrating an externally facing focus.</p> <p>The Fire Authority set extensive and challenging key performance indicators. Whilst there is over-performance against the KPI for response (relating to the 5 minute attendance target for category 2, 3 & 4 incidents, around a third of the prevention targets have not been met. However, we are satisfied that these are not as a result of deficiencies in the deployment of resources or poor decision making.</p> <p>Sickness levels for both uniformed and non-uniformed / fire control staff is higher than projected performance. The narrative confirms that this is mainly due to a few long term sickness episodes. Short-term sickness is controlled and proactively managed through the line management processes in place.</p> <p>The Authority is actively monitoring performance in a range of areas and providing narrative commentary against adverse variances. This shows that the procedures in place are adequate for ensuring informed decision making is present for improving the delivery of the service.</p> <p>Finally, we note from our review of financial performance that the Authority surpassed budgeted expectations from both a revenue and capital perspective by coming in below budget for 2016/17. This is a positive indication of the planned delivery the medium term financial strategy supported by realistic budgets based on reasonable assumptions. Transformation is a key element of the commitment to the strategy of the Service as set out in The Plan and approved by the Fire Authority. However, it should be noted that the assumptions made around growth and additional income in future years are more ambitious than in previous Plans and the Authority is taking time to establish itself in new markets. There are positive signs, but the plans to close the financial gap going forward are challenging and will require close scrutiny where significant variances arise.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements.</p>

Significant risk	Work to address	Findings and conclusions
<p>Partnership working with other emergency services</p> <p>There is evidence that the Service is working in partnership with West Midlands Police, ambulance Service, NHS, Local Authorities and other Fire & Rescue Authorities where the opportunity arises. There is some uncertainty over what form further collaboration will take and how this will lead to wider integration. Development of the West Midlands Combined Authority Mayoral arrangements and the recent legislative changes is now forcing a faster paced change.</p> <p>This links to the Authority's arrangements for working effectively with third parties to deliver strategic priorities.</p>	<p>We have reviewed the project management and risk assurance frameworks established by the Authority in respect of the more significant projects, to establish how the Authority is identifying, managing and monitoring these risks.</p>	<p>Overall we have gained assurance that there are no significant VFM risks relating to partnership working which adversely impact on our VFM conclusion for 2016/17.</p> <p>The Mayoral West Midlands Combined Authority (WMCA) is a significant new governance structure and will be a key driver of public service reform in the region. West Midlands Fire Authority has signalled its intent to become integrated with the Mayoral WMCA as part of its overall governance structure. There is evidence of the consideration of decisions by the Fire Authority to enable informed decision making on this key structural issue.</p> <p>The legislation is clear that the Government is committed to closer collaboration between the police and fire and rescue services. This Government is clear that greater joint working between the emergency services can deliver better local accountability, an improved service for communities and significant savings for taxpayers. Similarly the Government believes that central policy making, as well as local delivery, can benefit from a more joined up approach and that this can be best achieved by transferring responsibility for fire and rescue policy from the Department for Communities and Local Government to the Home Office.</p> <p>In response to this changing agenda (both politically and structurally), the Fire Authority has refreshed its vision and rolling three year Plan following stakeholder consultation. The Authority has also reviewed its Corporate Risks and is leading on Public Service Reform for Mayoral WMCA. West Midlands Fire Service has made significant progress in reforming itself to meet the wider challenges of driven by changes in Government policy and the complex and diversifying needs of the public. Cross sector working is at the heart of meeting these needs going forward and there is a recognition that the role of the Fire Service goes beyond that of a traditional firefighting service.</p> <p>This is reflected in the recent change in the vision to 'Making the West Midlands Safer, Stronger and Healthier' and picks up the increasing role in delivering outcomes in conjunction with other public sector services, including Police, Health bodies and Local Government bodies. Key to this approach is evidence which shows the incidence of individuals with multiple public service needs, providing an opportunity for a joined up approach to service delivery which is both more efficient and effective.</p> <p>The recent Peer Challenge identified that "West Midlands Fire & Rescue Service is keen to be at the forefront of working on the wider health agenda.....tackling health inequalities through its prevention and community safety work. The Service makes use of data and intelligence to target its Safe and Well visits. The Vision to deliver this across the whole community will assist with future Fire Reform developments."</p> <p>West Midlands Fire Authority has consulted and adapted to ensure that its structure and processes support collaborative working. The public service reform agenda is challenging, and meeting the Mayoral WMCA timetable for this will be demanding.</p> <p>There is a risk that the development of combined governance arrangements with Mayoral WMCA are not in place as rapidly as planned. In response to this the Authority set up a Governance Working Group with an independent Chair and following a review it reported its findings and recommendations for the service with a focus on the scrutiny, accountability and transparency this provides to communities. The Authority wants to ensure that it has the best governance it can, to be able to respond to strategic governance arrangements both within the region and within emergency services.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements</p>

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of the Authority	38,636	38,636	38,636
Total fees (excluding VAT)	38,636	38,636	38,636

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Fees for other services

Service	Fees £
Audit related services: <ul style="list-style-type: none">• none	0
Non-audit services	0

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The table above summarises that no other services were identified.

Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	July 2017
Annual Audit Letter	October 2017



© 2017 Grant Thornton UK LLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant-thornton.co.uk