

The Annual Audit Letter for West Midlands Fire and Rescue Authority

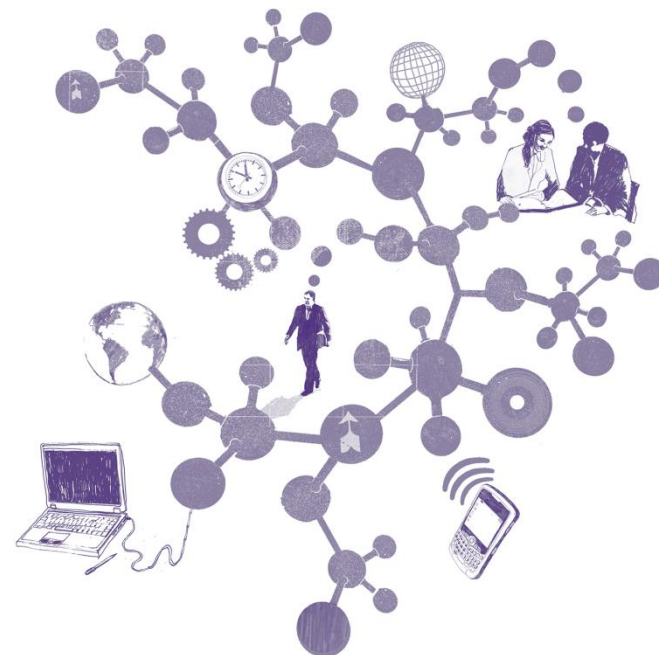
Year ended 31 March 2016

October 2016

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at West Midlands Fire and Rescue Authority (the Authority) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Authority and its external stakeholders, and to highlight issues that 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 25th July 2016 and to the Fire Authority on 19th September 2016.

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 28th July 2016.

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 2016. We reflected this in our audit opinion 28th July 2016.

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 19th August 2016.

Certificate

We certified that we had completed the audit of the accounts West Midlands Fire and Rescue Authority in accordance with the requirements of the Code on 5th September 2016.

Grant Thornton UK LLP
October 2016

Looking Forward

Working with West Midlands Fire and Rescue Authority

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 that:

- The financial statements submitted for audit were, yet again, of good quality, delivered by an effective closedown process and supported by excellent working papers.
- 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. Both the draft and audited financial statements record Total Comprehensive Income and Expenditure as net expenditure of (£186.512) million.
- 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 with an opinion being issued in July 2016. In previous years we have issued our opinion in September. This places the Authority in an excellent position to meet the reduced timescales for delivery of the audit which will impact in 2017/18.

The Authority's accounts show a strong financial position going forward, due to:

- Appropriate levels of reserves, specifically usable reserves, with an upward movement in Earmarked Reserves. The Authority's reserves are not used to subsidise the day to day transactions of the Authority.
- A low level of long-term borrowing, which has not increased for several years.

The changing landscape

The fire sector continues to face a period of unprecedented change. West Midlands Fire and Rescue Authority has demonstrated that it fully supports service wide transformation and has already achieved significant savings following reductions in central government funding of approximately £28 million over the Comprehensive Spending Review (CSR) period 2011/12 to 2015/16.

Funding reductions of this scale impact on both service support and service delivery functions and have required more challenging and innovative approaches to support the delivery of internal and external community facing services. Service transformation has been achieved at the same time as delivering against the Service's priorities and outcomes, set out in the three year rolling corporate strategy 'The Plan'. The Authority continues to respond to high risk (life and property) incidents within a risk based 5 minute attendance standard.

Looking forward over the next four years (2016/17 to 2019/20), the Authority is set to receive further reductions in core funding of approximately £10 million. The Service will continue to explore different approaches to achieve efficiencies to offset these funding reductions by focusing on growing and improving the services delivered to communities whilst seeking alternative funding streams to support the Service Delivery Model.

The Authority is also positioning itself well within the West Midlands against the backdrop of the Combined Authority and recent legislative changes which provide scope for closer working between Police and Fire. Senior Leaders of the Authority are supporting and leading change which will enable the Authority to respond well to future developments.

Audit of the accounts

Our audit approach

Materiality

In our audit of the Authority's accounts, we used the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We defined 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 £2,258,000, which is 2% 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 certain areas, including:

- Cash & cash equivalents – materiality based on our 'triviality' level
- Officers' Remuneration – materiality £10,000
- Related Party Transactions – materiality based on review of each item

We have a duty to report any errors above each of these thresholds. Our work did not identify any errors which we are required to bring to your attention.

The scope of our audit

Our audit involved obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This included assessing whether:

- the Authority's accounting policies were appropriate, had been consistently applied and adequately disclosed;
- significant accounting estimates made by management were reasonable; and
- the overall presentation of the financial statements gave a true and fair view.

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

We carried out our audit in line with the ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we obtained was 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
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at West Midlands Fire and Rescue Authority, we have determined that the risk of fraud arising from revenue recognition could be rebutted, because: <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition,• opportunities to manipulate revenue recognition are very limited,• the culture and ethical frameworks of local authorities, including West Midlands Fire and Rescue Authority, mean that all forms of fraud are seen as unacceptable. Our audit work did not identify any issues in respect of revenue recognition within the financial statements.
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	As part of our audit work: <ul style="list-style-type: none">• We reviewed the journal control environment and not identified any significant control weaknesses.• We tested key journal entries and not found any items which impacted on our opinion.• We reviewed the accounting estimates, judgements and decisions made by management• We reviewed any unusual, significant transactions and not identified anything which would impact on our opinion. Our audit work did not identify any evidence of management over-riding controls. In particular, the findings of our review of journal controls and testing of journal entries did not identify any significant issues.
Pensions commutation liability The Authority processed a material payment in the year in relation to pensions commutation liabilities that arose as a result of the GAD Vs.Milne case. Under ISA 315, this is a significant non-routine transaction.	As part of our audit work: <ul style="list-style-type: none">• We reviewed prior year provisions in comparison with the actual payment made to pensioners.• We agreed payments made to pensioners or the estate of deceased former scheme members.• We agreed receipt of the top-up grant receivable from DCLG to meet the liability.• We reviewed disclosure requirements and found them to be appropriate. Our audit work did not identify any issues in respect of the pensions commutation liability.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Authority's accounts on 28th July 2016, in advance of the 30 September 2016 national deadline.

The Authority made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

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 25th July 2016.

We did not identify any issues that required amendments to the main financial statements. There were minimal amendments required to the disclosures within the notes to the accounts.

Annual Governance Statement and Narrative Report

We are also required to review the Authority's Annual Governance Statement and Narrative Report. The Authority 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 and with our knowledge of the Fire and Rescue Authority.

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.

We were not required to invoke our additional powers and duties during the completion of this audit.

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 2015 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 on pages 9 and 10.

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 2016.

Key recommendations

As part of our Audit Findings report agreed with the Audit Committee in July 2016, we agreed recommendations to address our key findings. We discussed findings arising from our work with management and agreed one recommendation.

R1. The pace of change results in external modifications to working arrangements, partnerships and governance structures will continue to present a significant risk for the Authority going forward and as such, this should remain a key focus for the Authority over the coming months and years.

Value for Money

Risk identified	Work carried out	Findings and conclusions
<p>Informed decision making</p> <p>The Authority has historically managed its finances well, achieving financial targets and delivering against its 2015/16 budget, as well as being on course to deliver its 2016/17 budget.</p> <p>Nevertheless the scale and pace of change for the Fire Service will affect future projections, particularly following announcements from the Comprehensive Spending Review, Autumn Statement 2015 and then more recently the final Local Government Finance Settlement 2016/17, published in February 2016.</p>	<p>We reviewed the Authority's arrangements in place for identifying, agreeing and monitoring its sustainability and operational plans, and communicating key findings to the Governing Body and Audit Committee.</p> <p>We reviewed the Authority's updated medium term financial plan and monthly financial monitoring reports and assess the assumptions used.</p>	<p>Service delivery is focussed on: prevention, protection and response. Performance is analysed on a quarterly basis and reported to the Scrutiny Committee. This is measured based on Key Performance Indicators (KPI's) set out in 'The Plan 2015 to 2018'.</p> <p>Authority funding is reducing year on year. Core Government funding is currently 63% of overall annual income. The Medium Term Financial Strategy (MTFS) anticipates that by 2019/20 the core funding received from Government will have reduced by a further 16% or in monetary terms £10 million. Measures are set in each annual budget to ensure the on-going sustainability of the fire authority. We have reviewed progress against these, as reported to the Fire Authority on a quarterly basis.</p> <p>Overall we can conclude that adequate arrangements are in place to ensure the appropriate level of oversight at board level. The comprehensive organisation structure and frequency of meetings mean that information is relayed to members in a timely manner allowing them to resolve or challenge matters in relation to the operational and financial sustainability of the authority.</p> <p>We did not identify any material weaknesses in the medium term strategy, either financial or non-financial, and the strategy acknowledges the funding restraints the Authority faces both now and in the future. The main assumptions are around the increase in precept income. The long term forecast also takes in to account general inflation and price increases, pay awards, pensions and rental increases. These appear reasonable based on our understanding of the wider economy.</p> <p>An accompanying sensitivity analysis has been undertaken, demonstrating the robustness of the MTFS projections. The Authority has surpassed budgeted expectation for both revenue and capital. This demonstrates an ability to deliver the medium term financial strategy and set realistic budgets based on reasonable assumptions.</p> <p>The fire authority set extensive and challenging key performance indicators (KPIs). In year monitoring demonstrates a trend of consistent under achievement against a number of these KPIs. However, these are not as a result of deficiencies in the deployment of resources or poor decision making, but more where factors are to a large extent outside of the Authority's control. The narrative commentary confirms that procedures in place are adequate for ensuring informed decision making.</p> <p>On this basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements</p>

Value for Money

Risk identified	Work carried out	Findings and conclusions
<p>Working with partners and other third parties</p> <p>The Government is clear that the public sector needs to rethink the boundaries to create efficiencies and deliver services in a more meaningful way to the taxpayer. As such, they have passed legislation which devolves powers to localities. Furthermore, the Government also recently moved ministerial responsibility for Fire and Rescue to the Home Office from January 2016, with a view to supporting closer working within the blue light sector.</p> <p>The Authority is positioning itself to maximise the opportunities from the West Midlands Combined Authority which will be created in 2016/17 and the closer working which is anticipated between West Midlands Police and West Midlands Fire service.</p>	<p>We have understood the partnership working within the West Midlands and how this is evolving to support the delivery of public sector services across the area.</p> <p>We have assessed the governance arrangements which are being established to support any significant partnerships and consider how these plans are reflected in the longer term strategic planning of the Authority.</p>	<p>The West Midlands Combined Authority, formed (in principle) in July 2015, is seeking agreement to devolve powers from Whitehall (Government) to the Midlands to be deployed by the local authorities. The aim is to meet the needs and demands of the community better. Funding was initially devolved in November 2015. Whilst the process is in its infancy nationally, the West Midlands arrangements make specific reference to the blue light partners.</p> <p>The Authority considered and agreed to be a non-constituent member of the combined authority to widen the level of services they provide and achieve better outcomes for the community while reducing the burden to the public sector. The Authority has 'observer' status at the Board of the Combined Authority without membership. The Authority makes a financial contribution of £25,000 per annum and participates in debates leading up to the full approval of the combined authority but not in any voting, should a vote arise. There is no formal blue-print for connection to the Combined Authority, so this represents a starting point for collaboration and joint working going forward. This places them in a strong position to integrate with the development of the Combined Authority for the purpose of providing a value added, holistic service to the local community and wider public. Governance arrangements are still in their infancy.</p> <p>Following the transfer of ministerial responsibility for Fire and Rescue to the Home Office in January 2016, discussions between the Fire Service and Chief Constable's Police Force have progressed. There is an agreement within the West Midlands that closer working between the blue light sectors, where synergies can be identified, is a positive move. There is limited information around how this will develop and the Authority is clear that there should be a clear focus on benefits and outcomes. Closer working at a senior level or at an operational level will present different opportunities and risks and should enhance the overall service for the public, rather than be an expensive distraction, particularly to the developments within the Combined Authority. However, where costs savings can be identified, this should be progressed at a pace, as the asset review is demonstrating.</p> <p>On this basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements at this time.</p> <p>The pace of change results in these external modifications to working arrangements, partnerships and governance structures will continue to present a significant risk for the Authority going forward and as such, this should remain a key focus for the Authority over the coming months and years.</p> <p>On this basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements</p>

Working with the Fire and Rescue Authority

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit 2 months before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced of your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work. We will continue to work with you to identify further efficiencies in the process to ensure a continued, smooth audit delivery.

We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted the need for you to ensure that external changes to working arrangements, partnerships and governance structures remain a key focus for the Authority over the coming months and years. These present a key risk and the Authority will need to ensure that it maintains the agility it has demonstrated so far to keep pace and mitigate and minimise risk where it can.

Sharing our insight – we provided your Audit Committee with regular updates covering best practice, sector issues and relevant Grant Thornton national publications. Areas we covered included Making Devolution Work; Knowing the

Ropes: Audit Committee Effectiveness Review; Reforging Local Government and Innovation in public financial management.

National research reports – we have shared with you our publication on Joining up the dots, not picking up the pieces – Partnership working in Mental Health and Better Together – Building a successful joint venture company and will continue to support you as you consider greater use of alternative delivery models for your services.

Supporting development – we provided a workshop for senior officers on pension changes. We have also provided opportunities for Members to attend regional events in our Birmingham Office.

We also attended your relationship building breakfast event to see first-hand how you were working with other organisations to innovate and create ideas for new ways of working that would improve value for money and impact positively in your performance.

We are looking forward to working with you next year and will continue to support you. Locally, our focus will be on:

- An efficient audit – continuing to deliver an efficient audit
- Improved financial processes – we will challenge our approach to ensure that as much work as is possible is brought forward to support faster close
- Understanding your operational health – we will focus our value for money conclusion work on challenges from new models of working
- Supporting development – we are in discussion with you on providing access to our CEO Room to provide space and support for your Chief Fire Officer as he works more strategically as part of the West Midlands Combined Authority
- Support outside of the audit – our advisory team are in discussion with you on how CFO Insights can be adapted to support the Fire and Rescue Service

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Fire and Rescue Authority	38,636	38,636	51,515
Total fees (excluding VAT)	38,636	38,636	51,515

Fees for other services

Service	Fees £
Audit related services	0
Non-audit services Presentations regarding changes in pension contribution allowances	3,500

Reports issued

Report	Date issued
Audit Plan	July 2016
Audit Findings Report	July 2016
Annual Audit Letter	October 2016



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