



The Audit Plan for West Midlands Fire and Rescue Authority

Year ended 31 March 2014

March 2014

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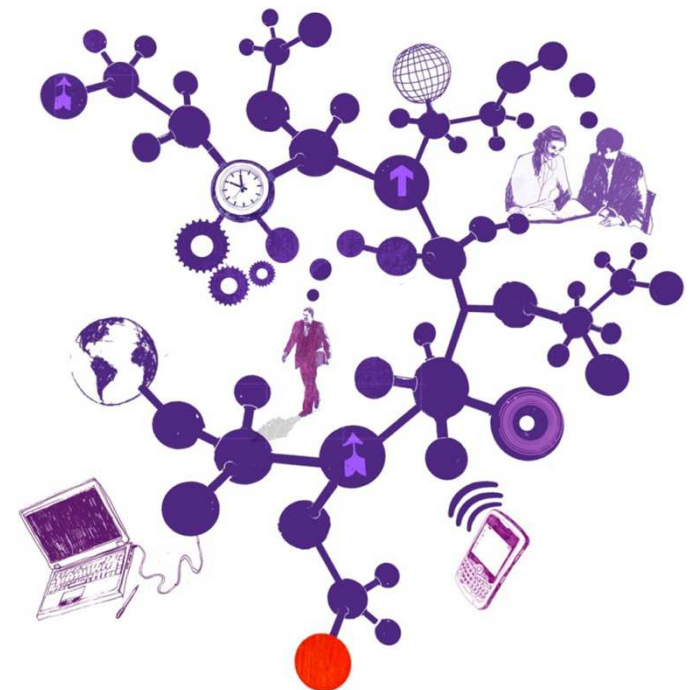
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Authority is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Financial reporting

- There have been some changes to the CIPFA Code of Practice, including a clarification of the Code requirements around the timing of PPE valuations.
- The system of business rates retention has changed in 2013/14 which will have an impact on the Authority as a preceptor.



2. Future Control Room Services

- Following the cancellation of the national control scheme fire authorities have been pursuing local schemes.
- The national picture was summarised by DCLG in September 2013 in its Future Control Room Services Scheme Summary.



3. Financial pressures and efficiency

- The Authority is facing significant financial challenges – balancing service delivery against available resources is intensified at a time of reducing budgets.
- Following the changes in respect of DCLG capital grants the Authority must ensure their compliance with such grant conditions.
- The Authority has undertaken reviews of value for money in service delivery under its Building Upon Success (BuS) initiative.



4. HS2

- Following the HS2 project's announcement of the intention to compulsorily purchase the car park and rear yard of West Midlands Fire Service HQ the Authority are faced with potential challenges regarding asset valuation and future utilisation of the HQ.



Our response

We will:

- ensure the Authority materially complies with the requirements of the CIPFA Code of Practice, and in particular review the process for ensuring valuations are materially correct.
- review the process for accounting for the Authority's share of business rates.

We will:

- understand the Authority's progress in delivering a shared control centre with key partners, including any changes in timetable to the original plan.
- consider the accounting impact of this in 2013/14 and beyond.

We will:

- review the Authority's financial performance against its agreed budget and monitor performance through discussions with officers and review of the Authority's papers.
- review the Authority's capital expenditure and ensure compliance with DCLG requirements.
- review the Authority's medium-term financial plan and consider the Authority's work on service delivery reviews following the end of the BuS initiative as part of our value for money conclusion.

We will:

- assess the HQ asset revaluation to ensure that it has been based upon reasonable assumptions and that the accounting treatment is appropriate.
- ensure that we have an on-going dialogue with the Authority regarding their future plans for the HQ to ensure that the valuation is appropriate and in line with accounting standards.

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements

1. Financial pressures and the efficiency agenda

- The Sir Ken Knight review reported in May 2013 about the drive for efficiency within the fire service.
- As well as this reductions in central government funding mean fire authorities need to find future efficiencies.

2. Pensions

- Changes to the Firefighters' Pension are due to be implemented from April 2015. There are transitional arrangements in place for the introduction of the 2015 scheme
- There are changes planned to the Local Government Pension Scheme (LGPS) in 2013/14 and 2014/15.

3. Corporate Governance

- As in previous years the Authority is required to summarise the operation of its system of internal control in its Annual Governance Statement (AGS).
- The Explanatory Foreword is a key opportunity for the Authority to communicate with its stakeholders.

4. Other requirements

- The Authority is required to submit a Whole of Government accounts pack which we are required to review.

Our response

We will:

- review the Authority's performance against the 2013/14 budget, including consideration of financial performance against the savings plan.
- assess the longer term plans of the Authority and how these are being consulted upon and delivered as part of our work on the VFM conclusion.

We will:

- discuss the impact of the proposed changes to the Firefighters' Pension scheme on the Authority during our meetings with senior management
- review the impact of the pension changes on your medium term financial strategy as part of our value for money audit work.

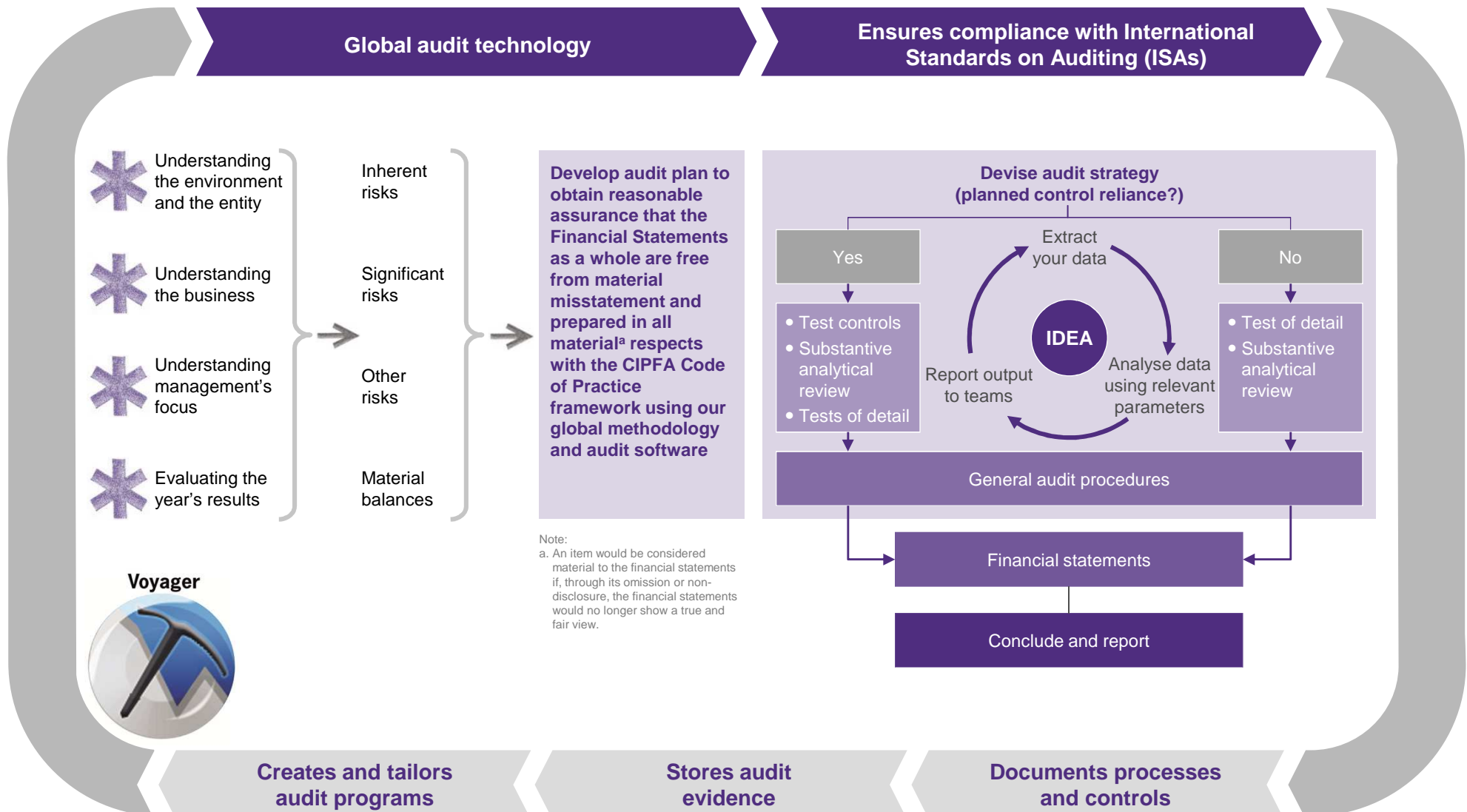
We will:

- review the arrangements the Authority has in place for the production of the AGS.
- review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge.

We will:

- assess the amount of work required on the WGA pack to ensure our work is proportionate to the value in line with guidance from DCLG.
- carry out this work in accordance with DCLG requirements and timescale.

Our audit approach



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Work completed to date:</p> <ul style="list-style-type: none">• We have considered whether the presumed risk of fraud due to improper recognition of revenue applies for the audit of West Midlands Fire & Rescue Authority.• Most of the Authority's revenues are from government grants or from Council Tax precepts which are predictable in timing and value.• As the levels of other revenues are not expected to be material in 2012/13, we have concluded that the presumed risk can be rebutted and so is not relevant for our 2012/13 audit. <p>Further work planned:</p> <ul style="list-style-type: none">• We will consider the risk of fraud throughout our audit and in particular, during the audit of the financial statements.
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none">• Review the journal control environment to identify any control weaknesses <p>Further work planned:</p> <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries• Review of unusual significant transactions

Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Work programme
Operating expenses	Creditors understated or not recorded in the correct period	<p>Work completed to date:</p> <ul style="list-style-type: none">• We have documented the processes and controls in place around the accounting for operating expenses• We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding• We have begun early substantive testing on a sample of operating expenses up to January 2014. <p>Work planned:</p> <ul style="list-style-type: none">• Testing of the completeness of the subsidiary system (purchase ledger) interfaces with the ledger• Testing of the control account reconciliations• Review of monthly trend analysis of payments to identify any unusual or irregular movements which would be investigated• Documentation of the processes in place for month and year end accruals• Cut off testing of purchase orders and goods received notes (both before and after year end)• Completion of testing a sample of operating expenses to ensure they have been accurately accounted for and in the correct period
Fire Fighter Pension Benefit Payments	Benefits improperly computed / claims liability understated	<p>Work completed to date:</p> <ul style="list-style-type: none">• We have documented the processes and 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 understanding <p>Work planned:</p> <ul style="list-style-type: none">• Agreement of pension disclosures in the financial statements to supporting evidence.• Testing a sample of Fire fighters' pension payments covering the period 1 April 2013 to 31 March 2014 to ensure they have been accurately accounted for and in the correct period.

Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Work programme
Employee Remuneration	Employee remuneration accruals understated	<p>Work completed to date:</p> <ul style="list-style-type: none">• We have documented the processes and controls in place around the accounting for Employee remuneration• We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding• We have begun early substantive testing on a sample of employees covering the period April 2013 – March 2014. <p>Work planned:</p> <ul style="list-style-type: none">• Review of monthly trend analysis of payments to identify any unusual or irregular movements which would be investigated• Testing of the control account reconciliations• Re-performance of payroll reconciliation• Completion of testing a sample of employees for accuracy of payments and the agreement of employment remuneration disclosure to supporting documentation.

Results of interim audit work completed

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.
Employee Remuneration	<p>We have begun early substantive testing and had discussions with the payroll department.</p> <p>From our discussions the following issue has been identified: <i>All employees enrolled on the new 2006 pension scheme whose pension contributions fell at either 9.1% or 9.6% have been incorrectly recorded on the Oracle payroll system between April 2013 and December 2013. The parameters loaded onto Oracle were incorrect. This error was identified by the Authority in December 2013 and the outstanding contributions are being collected from February 2014 over an 8 month period.</i></p>	Further testing will be carried out to ensure that the measures put in place to rectify the error have been implemented and to ensure that the balance in the financial statements is accurate.
Operating Expenditure	<p>We have begun early substantive testing on operating expenditure. Our work has not identified any issues which we wish to bring to your attention.</p>	Our work has not identified any weaknesses which impact on our audit approach.
Journal entry controls	<p>We have reviewed the Authority's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Authority's control environment or financial statements.</p>	Our work has not identified any weaknesses which are likely to adversely impact on the Authority's control environment or financial statements. We will undertake detailed testing of journal entries.

Interim work to be completed in March / April 2014

	Work to be performed	Outcome of the work to be performed
Early substantive testing	Where practical, we will complete testing on initial samples of employee remuneration, operating expenses and grant income.	The work will inform our audit approach for the Authority's accounts and contribute to the assurance for material balances.
Value for money conclusion	We will undertake an initial review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.	The work will inform our conclusion on the Authority's arrangements to secure value for money.
PPE	We will undertake title deeds testing and physical asset verification of material assets.	The work will inform our audit approach for the Authority's accounts and contribute to the assurance for material balances.
Capital expenditure	We will obtain details of capital grants received from DCLG and ensure that the Authority's expenditure is in line with DCLG requirements or conditions set.	The work will inform our audit approach for the Authority's accounts and contribute to the assurance for material balances. This will also support our value for money conclusion.
Estimates	We will gain an understanding of and review significant judgments made by the Authority.	This will contribute to the assurance for material balances.
Information Technology	We will use our IT department to review the IT control environment at the Authority. Of particular interest will be the upgrade of the Ledger system from version 11 to version 12 which is occurring from 28 th March – 31 st March 2014.	The work will inform our approach to the audit of the Authority's accounts including our conclusion on the arrangements to secure value for money. If there are issues with the upgrade of the ledger, this will impact on the level of work required and potentially the work required to gain assurance over the financial statements.
Other work to be performed	We will follow up the Authorities' progress in implementing the recommendations of our Audit Findings report for 2012/13 (appended to this plan at appendix A).	The work will inform our approach to the audit of the Authority's accounts including our conclusion on the arrangements to secure value for money.

Value for Money

Value for Money

The Code requires us to issue a conclusion on whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

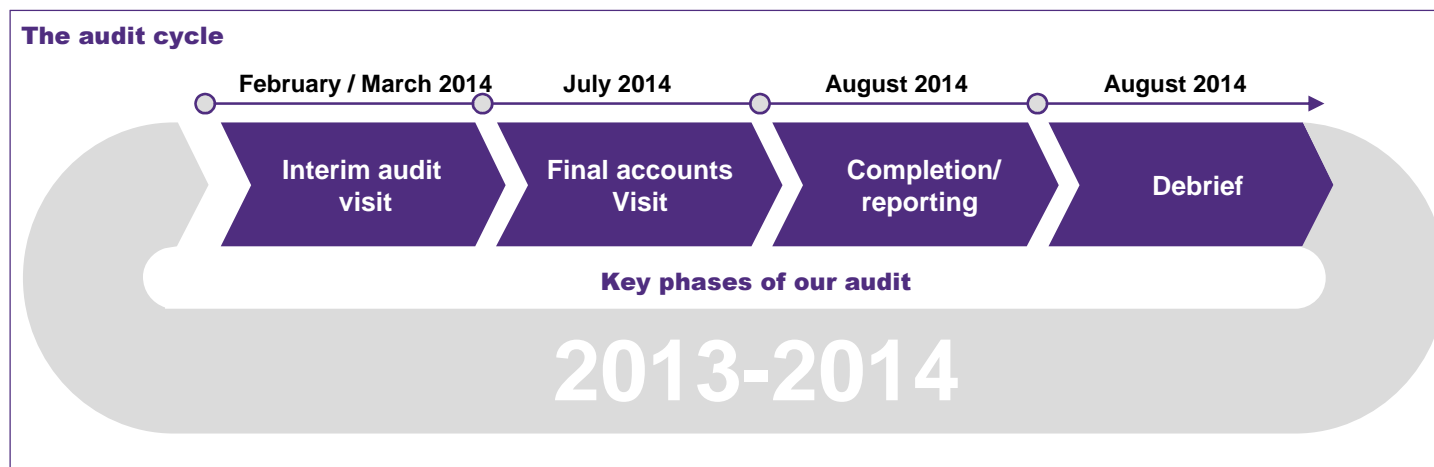
VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- The ability of the Fire Authority to deliver savings required whilst still maintaining services and performance information.
- The impact in changes to Senior Management on the Fire Authority's overall strategic direction.
- Maintaining services delivery around potential strike action and negotiations with the Fire Brigade Unions over pension issues.
- The use of assets, in particular, the Fire HQ in light of current occupancy levels and decisions following the communication with HS2.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

Key dates



Date	Activity
January 2014	Planning
February / March 2014 with limited testing in April 2014 for year end	Interim site visit
March 2014	Presentation of audit plan to Audit Committee
July 2014	Year end fieldwork
August 2014	Audit findings clearance meeting with Director of Resources
September 2014 (papers prepared in August 2014)	Report audit findings to those charged with governance (Audit Committee / Authority)
September 2014	Sign financial statements opinion

Fees and independence

Fees

	£
Authority audit	51,515
Total fees (excluding VAT)	51,515

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Authority and its activities, have not changed significantly
- The Authority will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Authority.

Respective responsibilities

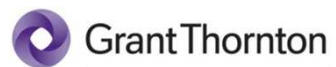
This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Authority's key risks when reaching our conclusions under the Code.

It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		✓
Details of safeguards applied to threats to independence		✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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