

kpmg

**West Midlands Fire and Civil Defence Authority**

**Annual Audit Letter**

**2003/04**

**November 2004**

**KPMG**

*This report contains 24 pages*

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## 1 Executive summary

The Authority continues to face significant challenges and has a demanding agenda to deliver. It has robust arrangements in place for monitoring its financial position and has taken positive steps to identify the impact of its modernisation proposals on its budget in the short and medium term.

It is important that the Authority continues to model the financial implications of changes in policy and working practices if it is to realise efficiencies and savings in line with the modernisation agenda. Another key element supporting modernisation is the development of the Medium Term Financial Plan to ensure it links to risk and performance management arrangements.

Overall, the Authority has maintained sound systems of internal control over its core financial systems although some problems have been experienced in the transfer of information to the new system. Despite this, our work on the financial statements was completed before the statutory deadline and the accounts were unqualified. The Authority has made progress in improving the timeliness of the accounts production process and should be commended for this.

The Authority has formalised performance management arrangements in place at a corporate and station level which, with continued refinement and development should deliver continued performance improvement. However, it is important that the Authority closely monitors progress in implementing

its action plan on risk management and that the agreed principles are embedded in business and service planning. It is also important that the Authority develop a framework for assessing and demonstrating value for money through developing key unit costs and efficiency targets.

West Midlands will face continued pressure on resources and significant demands on its staff in the future. It has recognised these challenges and is well placed to address them. It must continue its focus on risk and the effective use of resources to ensure it continues to deliver its strong performance.

## 2 Introduction

This letter reflects our responsibilities under the *Code of Audit Practice* (the Code). This requires us to consider and assess the relevant significant operational and financial risks that apply to West Midlands Fire and Civil Defence Authority (the Authority) and the arrangements it has put in place to manage these risks. The result is greater emphasis on ensuring that our work is tailored to the circumstances of the Authority and audit effort directed to those areas of greatest risk.

The Code also stresses that each part of the audit needs to be viewed in the context of the whole. No one part stands alone, and work in relation to one element of the audit informs work in relation to other elements. The above is summarised in the Audit Commission's audit model.

Our Annual Audit Letter therefore focuses on those operational and financial risks that we considered to be relevant to our responsibilities as updated and amended during the course of our audit.

For lower risk areas, or where no significant matters have arisen, we have adopted a watching brief and undertaken limited work.

### *Respective responsibilities*

*This Annual Audit Letter is addressed to all the members of the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any officer or Member 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.*

## 3 Financial aspects of corporate governance

### 3.1 Financial Standing

*The Authority has robust arrangements in place for monitoring its financial position, and has taken positive steps to identify the impact of its modernisation proposals on its budget in the short and medium term. It is important that the Authority continues to model the financial implications of changes in policy and working practices.*

We are required to review the adequacy of arrangements that the Authority has in place to ensure that its financial standing is soundly based. In our assessment we reviewed the Authority's:

- financial performance in the year to date and future forecasts;
- ability to meet known statutory and other financial obligations, actual or contingent; and
- responses to known developments, whether current or in the foreseeable future, which might have an impact on its financial standing.

#### 3.1.1 Financial Performance in 2003/4

##### *Revenue income and expenditure*

In 2003/2004, the Authority underspent its revenue budget by £29,000. This takes account of a budgeted contribution to earmarked reserves of £1.3m. Pension costs for the year were slightly above budgeted figures at £18.17m.

The Authority continues to budget for pensions on the basis of known compulsory retirements and the average of the previous three years costs for ill health retirements, voluntary retirements and transfer values of fire fighters leaving or coming to the Brigade. The pensions position is still reported monthly to senior management and quarterly at Authority meetings.

The Firefighters Pension Scheme remains unfunded and, as such, rising pension costs continue to place significant demands on the budget. The Authority recognises the need to review these arrangements and although this issue affects all fire authorities, it is important that the Authority continue to monitor the situation closely. Disclosures under the Financial Reporting Standards, based on actuarial valuations, show the estimated liabilities under the scheme at £607m.

##### *Reserves*

The Authority continues to build on its reserves with balances of £17.2m. It has a continued commitment to training and development and the Authority is also building on its project management support in recognition of the diverse and demanding project timetable it faces. The Authority has a clear understanding of how it intends to

apply these resources and how they link into key objectives. The Authority's reserves continue to be managed within the context of both the business and financial plans.

### **3.1.2 Financial outlook and strategy**

#### **Medium Term Financial Plan**

A requirement for Authorities to adopt a medium term approach to planning and managing its finances has been a governmental ambition for a number of years and sits at the heart of the modernisation agenda.

The Government White Paper 'Strong Local Leadership – Quality Public Services' recognised that good financial management will be one of the keys to success, and reinforced the role of the member in maintaining adequate reserves and the need to manage financial resources over a longer period.

The medium term financial plan is a key tool in delivering and translating the corporate objectives. It should be used:

- to act as the expression and commitment of the members financial policy or framework;
- to provide the performance management framework for senior management in relation to strategic finance;
- to articulate the outcome of strategic financial option appraisal and modelling; and

- to plan for and provide evidence of financial viability in the medium term.

The Authority's three year financial strategy is updated annually to reflect changing demands over the medium term. It reflects the priorities outlined in the Business Plan and identifies the medium term impact of key decisions. These demands continue as the Authority looks to identify opportunities to make savings and redirect resources towards prevention and fire safety. However, there are a number of areas where medium term financial planning could be developed further. These have been included in the recommendation below:

#### **Recommendation 1: Medium Term Financial Plan**

The Medium Term Financial Plan should include:

- the impact of risk management on the MTFP;
- strong links between the Asset Management Plan, Capital Strategy, Treasury Management Strategy and Capital Programme; and
- an understanding of the relationships between the MTFP, Business and Service Planning

### *2004/05 Budget*

The Authority set a revenue budget of £107.185m for 2004/05 which includes a contribution from the Authority's balances of £1m. This is a significant commitment and reflects what the Authority calls 'essential developments' of £1.4m, the majority of which support the modernisation agenda. These commitments extend over the medium term.

The latest reported position shows an underspend against budget which is predominantly due to a projected underspend on pensions of £0.8m. This is due to a lower number of retirements than anticipated. The Authority continues to monitor the position closely and recognises the volatile nature of pension costs.

The Government has set clear expectations on Fire Authorities to achieve savings. It recognises that these savings may take time and has made transitional funding available to take account of this. The Authority does have plans to repay this and continues to monitor the impact of the increasingly uncertain funding arrangements.

The pay agreement continues to have significant financial implications. We are aware that the Authority is keeping the situation under close review, and Members continue to be briefed on the potential budgetary implications. The 2004/05 budget reflects the significant pressures of the revised pay formula and the implications of the change from rank to role.

### *Efficiencies*

The Authority has fully costed and resourced action plans developed through modernisation proposals and incorporated them into the budget. It has also demonstrated best practice in the development of a strategic reserve to deliver against priorities. Efficiencies have been identified through the reduction in aerial appliances and the Authority is projecting efficiencies through changes in duty systems. It is important that these opportunities are identified and the financial modelling of options continues if the Authority is to meet its cost pressures.

The Authority faces a significant challenge in freeing up resources to meet emerging priorities, but the focus on improved processes and more efficient working practices should ensure that it is well placed to deliver its financial plans, including the potential repayment of transitional funding from government to meet some of the modernisation requirements. The Authority is looking for further efficiencies across a range of issues.

We make the following recommendation:

#### ***Recommendation 2: Financial modelling and delivering efficiencies***

The Authority should further develop its financial modelling to assess the implications of changing policies and practices under the modernisation programme. This is important if the Authority are to realise efficiencies and savings in line with the modernisation agenda.

## 3.2 Systems of internal financial control

*Overall, the Authority has maintained sound systems of internal control over its core financial systems although some problems have been experienced in the transfer of information to the new system. We have placed reliance on the systems and have relied upon the work carried out by Internal Audit.*

We are required to consider whether the Authority has put in place adequate arrangements to satisfy itself that its systems of internal financial control are both adequate and effective in practice. These arrangements include:

- the overall control environment, including Internal Audit;
- the identification, evaluation and management of operational and financial risks;
- clarity of roles and responsibilities of staff with the expertise appropriate to their responsibilities; and
- standing orders, financial regulations and supporting procedure notes.

### 3.2.1 Statement of Internal Control

The Authority has produced its first statement of internal control which incorporated many of the requirements set out in the CIPFA guidance including:

- reference to the work of Internal Audit;

- the budgetary control framework; and
- the Authority's business planning process.

The Authority recognises the need to further develop its risk management arrangements and should consider enhancing the statement in the future to set out the action it is taking in response to key risks.

#### **Recommendation 3: Statement of Internal Control**

The Authority should consider incorporating the Authority's action in response to key risks in the statement of internal control.

### 3.2.2 Risk Management

Following on from our recommendation last year, the Authority has made progress in developing its risk management arrangements. However, further progress is needed.

The introduction of the requirement to include a full statement of Internal Control in the financial statements for 2003/04 and the requirements under the Comprehensive Performance Assessment (CPA), emphasise the need to develop effective arrangements to manage risk. The Authority uses many of the principles of risk management already including:

- an approved risk management policy statement; and
- the development of a strategic risk group.

The Authority has a clear action plan for how they are going to develop and review risk management arrangements including:

- key training events; and
- the development of risk registers.

Timescales are in place and it is important that the approach and understanding is developed at all levels of the organisation. We would make the following recommendation:

***Recommendation 4: Risk management***

The Authority should closely monitor progress in implementing its action plan to ensure that its risk management policy is translated into actions that are applied across all levels of the Authority. It is also important that risk management is embedded in business and service planning to identify the necessary countermeasures to reduce risk.

### ***3.2.3 Internal Audit***

We reviewed the quality and scope of Internal Audit's work under the Managed Audit approach to assess the extent to which we may place reliance on its annual coverage in planning our own external audit work.

External audit has responsibility for reviewing internal financial control arrangements. In addressing this responsibility, we work closely with Internal Audit and seek to place reliance on their work.

We have reviewed the work of Internal Audit during 2003/04. Our overall view is that we were able to place reliance on the work of Internal Audit. We have also concluded that management have adequate systems in place to provide themselves with assurance that financial systems are adequately designed and operating as intended.

We have also assessed the Internal Audit plan for 2004/05 which will cover a number of key areas including regional fire service implications and external funding arrangements. It is important that the plan is continually updated and revised as necessary to ensure it continues to address the key risks facing the Authority and links closely with the work of the planning and performance unit.

***Recommendation 5: Internal Audit focus***

The Internal Audit Plan should reflect the risks facing the Authority as outlined in the Authority's risk register to ensure audit resources are directed to the areas of greatest risk.

### ***3.2.4 New Finance system***

The new finance system was implemented from 1<sup>st</sup> April 2003. External Audit for Sandwell MBC have undertaken a review of the operation of Sandwell Business Systems and identified some instances where system imbalances still exist and reconciliations need to be performed. Some of these impact on West Midlands Fire Authority. The Authority is aware of these issues and is working to address them.

***Recommendation 6: New system imbalances and reconciliations***

It is important that the Authority resolve outstanding discrepancies caused by the transfer to a new finance system and determine clear lines of accountability between itself and Sandwell MBC in addressing these problems and maintaining reconciliations.

### ***3.2.5 Prudential code***

The Authority has considered the implications of the new code and has reported to members on its prudential indicators. The impact of the code has been incorporated into the financial plans of the Authority and we will continue to monitor decisions taken under the code to ensure capital spending plans are affordable, prudent and sustainable.

## **3.3 Legality of financial transactions**

***Based on the work we have undertaken, the Authority has adequate arrangements in place for ensuring the legality of its transactions.***

We are required by the Code of Audit Practice to assess the arrangements that the Authority has in place to identify whether transactions undertaken that might have a significant financial consequence and contracts that are entered into are legally sound. In our assessment we considered the impact of matters notified to us by the Audit Commission and reviewed the Authority's overall arrangements by:

- considering the legality of financial transactions as part of our audit of the Authority's statement of accounts;
- holding discussions as required with the Authority's Monitoring Officer as to whether or not there are any significant legal issues which impact on the Authority;
- considering the local impact of national legislation affecting fire authorities;

Our audit work has involved an ongoing assessment of the Authority's compliance with the applicable legal and regulatory framework.

Overall the Authority has responded well to the requirements of new legislation and continues to develop awareness amongst its members and employees of new legislative requirements. There are no other matters resulting from our work in this area that we wish to draw to your attention.

## **3.4 Standard of financial conduct and the prevention and detection of fraud and corruption**

***The Authority continues to apply effective standards of financial conduct and has maintained adequate controls over the prevention and detection of fraud and corruption***

We are required to review the adequacy of the Authority's arrangements to manage its affairs in accordance with proper standards of financial conduct and to prevent and detect fraud and corruption. In our assessment we reviewed the Authority's overall arrangements for:

- implementing and monitoring compliance with appropriate standards of corporate governance;
- ensuring compliance with codes of conduct that advise Members and officers of their personal responsibilities and expected standards of behaviour;
- ensuring compliance with standing orders and financial regulations, including instructions on regulating the handling of contracts;
- developing and implementing strategies to prevent and detect fraud and corruption; and
- receiving and investigating allegations of breaches of proper standards of financial conduct, or of fraud and corruption.

It is management's responsibility to ensure that there are appropriate controls in place to prevent loss through fraud and error and to ensure that appropriate governance arrangements are in place.

Our work in this area included a follow-up review of the Audit Commission's Overall Arrangements for the Prevention of Fraud and Corruption checklist, which we completed in the previous year. This confirmed that the control environment required to prevent and detect fraud and corruption remained strong within the Authority.

We also reviewed the Internal Audit's Annual Plan for evidence that it included consideration of issues relating to the prevention and detection of fraud and corruption.

### *Constitution*

The Authority has introduced new committee arrangements in line with the Local Government Act to enhance member involvement and scrutiny of decisions. A new constitution has been established to reflect this and it is important that the Authority monitors the effectiveness of these arrangements.

### *Regional Management Board*

The Authority continues to play a key role in developing the regional working arrangements. The Board has approved the Programme Plan and is continuing to report on progress on the modernisation programme. The pace of change and demanding programme make it important that appropriate financial regulations and standing orders are in place.

### ***Recommendation 7: Regional Management Board***

The Authority will need to establish and monitor compliance with standing orders and financial regulations as the Treasurer is responsible for financial matters for the Regional Management Board.

## 4 Audit of the accounts

*Our audit work on financial statements was completed before the statutory deadline and the accounts were unqualified. The Authority had made progress in improving the timeliness of the accounts production process and should be commended for this.*

### 4.1 Statement of Auditing Standard 610 (SAS 610)

Under SAS 610, we are required to formally communicate to those charged with governance any matters which come to our attention as a result of the audit of the financial statements. The SAS guidance states that the information that we report must include:

- Any identified mis-statements in the accounts which management have *not* agreed to adjust; and
- Our view on the qualitative aspects of the Authority's accounting and financial reporting practices.

We are pleased to report that there were no unadjusted audit amendments. We did identify a number of audit amendments and additional disclosure notes during the course of our audit but they do not impact upon the overall financial position of the Authority.

## 4.2 Our opinion and certificate

We are required to audit the Authority's financial statements and to give an opinion on whether they present fairly the financial position of the Authority and its expenditure and income for the year. We are also required to report that they have been properly prepared in accordance with relevant legislation and applicable accounting standards.

An important measure of proper financial control and accountability is the timely closure and publication of audited accounts. The Authority met the statutory deadline of approving the accounts by 31st August but it is important that the Authority seek to bring the accounts closedown process forward even further in light of the demanding timetable for producing the accounts in the future.

We reported to the Authority in our opinion on 15<sup>th</sup> November 2004, that the statement of accounts presented fairly the financial position, and that we had completed the audit in accordance with the requirements

The Authority provided management assurances that all known related parties disclosures had been made and that there are no areas of non-compliance with laws and regulations of which management is aware.

We have not received any questions or objections on the 2003/04 accounts from local authority electors under section 15 of the Audit Commission Act.

## 5 Performance management

*The Authority has formalised performance management arrangements in place at a corporate and station level, which with continued refinement and development should deliver, continued performance improvement*

We have a responsibility to review and where appropriate report on the arrangements that the Authority has put in place:

- to comply with statutory requirements in respect of the preparation and publication of its Best Value Performance Plan;
- for collecting, recording and publishing specified performance information; and
- to secure economy, efficiency and effectiveness in the use of resources.

### 5.1 Best Value Performance Plan and Best Value Performance Indicators (BVPIs)

*We issued an unqualified opinion on the Best Value Performance Plan.*

Under the Local Government Act 1999 the Authority is responsible for the preparation of a Best Value Performance Plan (BVPP) and for the information and assessments set out within it.

As the Authority's auditors, we were required under Section 7 of the Act to carry out an audit of the BVPP focusing upon the following areas:

- Compliance - we assessed whether the BVPP complied with the requirements of the legislation and other associated orders or guidance.
- Performance information - we assessed the systems in place for preparing performance information.

We issued a short report to officers setting out our detailed findings and areas for improvement going forward.

#### 5.1.1 Issues for the future

BVPP guidance and the CPA agenda is continually developing, so it is important that officers maintain their commitment to producing a Plan that meets all legislative requirements and continue to look at the focus of the plan with the advent of CPA and the development of the Integrated Risk Management Plan (IRMP).

The Authority is well placed to deal with these issues through the continued focus on developing performance management arrangements and the BVPP. We will continue to monitor progress in this area with interest.

### 5.2 Use of resources

*The Authority's arrangements for securing economy, efficiency and effectiveness in the use of its resources continue to be sound.*

We are required to review the adequacy of the arrangements the Authority has in place to secure economy, efficiency and effectiveness in its use of resources. In making this assessment we have taken into account:

- the risks shared with the Authority at the planning stage;
- requirements of the Audit Commission;
- evidence gained from other aspects of the audit or previous audit work; and
- where appropriate, the work of other auditors, inspectors and other statutory review agencies.

The Authority continues to monitor its performance closely and through its programme management arrangements it is able to monitor the resources it is committing to its projects. It is important that the Authority also measure the outputs in the context of performance and finance and develop measures to aid comparison and decision making. This will be important if the Authority is to demonstrate it is delivering value for money. We make the following recommendation:

***Recommendation 8: Assessing value for money***

The Authority should develop a framework for assessing and demonstrating value for money through developing key unit costs and efficiency targets.

***Verification report***

The recent review by the Audit Commission on progress on modernisation confirmed that the Authority was making ‘good progress’ (see Figure 1 below). It commended the Authority for its integrated approach to modernisation with clear responsibilities and lines of accountability. It also identified significant progress in working at a regional level and clearly articulated and communicated changes in policy. It identified the need to maintain this momentum and review regional and partnership working arrangements to ensure the intended benefits are being delivered. The findings of this review will be revisited under the CPA inspection planned for early next year.

Figure 1 - Overall assessment

Overall Assessment			IRMP		→
			Rank to Role		→
			IPDS		→
			Overtime		↗
			Duty Systems		→
			Part-time working		↗
			Modernisation Agenda		→
			Financial Diagnostic		

### ***5.2.1 Performance Management***

***Performance Management arrangements are continually reviewed and strategic performance management arrangements are well established. Plans at a station and function level continue to be improved.***

The Authority are making good progress in addressing the performance management recommendations set out in our report last year. Directed Action Planning (DAP) has been developed to focus on priorities and prevention as outlined in the IRMP. Appropriate guidance has been issued and training sessions have been held. Many of the recommendations are now being addressed through the IPDS project plans.

### ***5.2.2 Programme Management***

In our Audit Plan, we again identified that the Authority faces a number of challenges in implementing action plans and delivering improvement plans.

The structures that manage performance and support change have been improved through the establishment of the Programme Support Office. This will provide configuration management for the Prince2 methods adopted and a link between the project managers and the Corporate Board. Previously these roles were being performed on a part-time basis.

Our work in reviewing how the Service delivers against the various project plans will be undertaken in November 2004. It was deferred

until the completion of our verification audit, under the terms of the pay agreement given the potential overlap in the nature of the work.

## 6 Audit summary

*This section summarises the overall arrangements for delivery of your external audit in 2003/04*

### 6.1 The 2003/04 audit cycle

In order to ensure that there is transparency between the Authority and the external auditors about the extent of our fee relationship with you, we have summarised below the outturn against the 2003/04 agreed external audit fee.

#### **Analysis of the external audit fee – 2003/04**

<b>Audit Area</b>	<b>Plan £000</b>	<b>Outturn £000</b>
Accounts	29	29
Financial Aspects of Corporate Governance	13	13
Performance management	13	13
<b>Total</b>	<b>55</b>	<b>55</b>

### 6.2 Delivery of our 2003/4 plan

We are required under the Statement on Auditing Standards (SAS610) to consider any issues that may impact on our independence and objectivity. In relation to the audit of the financial statements for West Midlands Fire Authority for the financial year ending 31 March 2004, we are able to confirm that the Commission's requirements in relation to independence and objectivity, have been complied with and that under the requirements of SAS 610.3, we are not aware of any relationships that may bear on the independence and objectivity of the audit engagement partner and audit staff which are required to be disclosed.

The analysis shows that to date, we are not expecting a significant change in the level of core audit fees when compared with the plan. We have not undertaken any additional work outside our agreed audit plan.

## Appendix A - Summary of recommendations and action plan

We set out below, in the form of an action plan, the recommendations made in this letter and the actions that management has agreed to take. The recommendations are graded by risk, i.e. High (**H**), Medium (**M**) or Low (**L**) risk.

No.	Risk	Recommendation	Management response
1	M	<p><b><i>Medium Term Financial Plan</i></b></p> <p>The Medium Term Financial Plan should include:</p> <ul style="list-style-type: none"> <li>the impact of risk management on the MTFP;</li> <li>strong links between the Asset Management Plan, Capital Strategy, Treasury Management Strategy and Capital Programme; and</li> <li>an understanding of the relationships between the MTFP, Business and Service Planning</li> </ul>	Agreed
2	H	<p><b><i>Financial modelling and delivering efficiencies</i></b></p> <p>The Authority should further develop its financial modelling to assess the implications of changing policies and practices under the modernisation programme. This is important if the Authority are to realise efficiencies and savings in line with the modernisation agenda.</p>	Agreed
3	M	<p><b><i>Statement of Internal Control</i></b></p> <p>The Authority should consider incorporating the Authority's action in response to key risks in the statement of internal control.</p>	Agreed

No.	Risk	Recommendation	Management response
4	H	<p><b><i>Risk management</i></b></p> <p>The Authority should closely monitor progress in implementing its action plan to ensure that its risk management policy is translated into actions that are applied across all levels of the Authority. It is also important that risk management is embedded in business and service planning to identify the necessary countermeasures to reduce risk.</p>	Agreed
5	M	<p><b><i>Internal Audit focus</i></b></p> <p>The Internal Audit Plan should reflect the risks facing the Authority as outlined in the Authority's risk register to ensure audit resources are directed to the areas of greatest risk.</p>	Agreed
6	H	<p><b><i>New system imbalances and reconciliations</i></b></p> <p>It is important that the Authority resolve outstanding discrepancies caused by the transfer to a new finance system and determine clear lines of accountability between itself and Sandwell MBC in addressing these problems and maintaining reconciliations.</p>	Agreed
7	H	<p><b><i>Regional Management Board</i></b></p> <p>The Authority will need to establish and monitor compliance with standing orders and financial regulations as the Treasurer is responsible for financial matters for the Regional Management Board.</p>	Agreed

No.	Risk	Recommendation	Management response
8	M	<i>Assessing value for money</i>  The Authority should develop a framework for assessing and demonstrating value for money through developing key unit costs and efficiency targets.	Agreed

## Appendix B - Prior year implementation plan and progress

No.	Recommendation	Progress made at West Midlands Fire
1	<p><b><i>Flexible and focussed financial planning</i></b></p> <p>The Authority should develop and formalise the forward financial plan and ensure it reflects the priorities outlined in the business plan whilst remaining responsive to short term demands</p>	<p>The updated current forward financial plan has been established. Stronger links have been made with this exercise and the business plan (e.g. identifying development proposals as part of Principal Officer's away day, managers briefing on 8<sup>th</sup> Oct 2004), to comply with action.</p>
2	<p><b><i>Risk management</i></b></p> <p>The Authority should ensure that an effective risk management approach is developed, approved and taken forward within the organisation. This should build on the good practice already in place and should include a review of the current Internal Control arrangements to ensure they satisfy the requirements of the overall statement of Internal Control for 2003/04</p>	<p>A Strategic Risk Management group has been formed, Members of the Authority have been briefed and an action plan produced.</p>
3	<p><b><i>Prudential code</i></b></p> <p>The Authority should ensure that its three year financial plan incorporates the requirements of the new prudential code</p>	<p>The impact of the prudential code is fully reflected in the Authority's three year financial plan.</p>

No.	Recommendation	Progress made at West Midlands Fire
<b>4</b>	<b><i>Timeliness and appropriateness of accounts</i></b>  The Authority should ensure that it makes arrangements to meet the accelerated deadlines for producing the accounts whilst ensuring compliance with appropriate accounting requirements.	Plans and timetables are in place to ensure accounting requirements and deadlines are achieved
<b>5</b>	<b><i>Devolved performance management arrangements</i></b>  The Authority should ensure that it reviews the performance management arrangements in relation to Stations taking account of the recommendations made in the detailed report	Directed Action Planning has begun and further improvements will be made following the second tranche of work by KPMG

## Appendix C

### Auditor's Statutory Report on the Best Value Performance Plan

#### Auditor's Report to West Midlands Fire and Civil Defence Authority on its Best Value Performance Plan for the 2004/5 Financial Year

##### *Certificate*

**We certify that we have audited West Midlands Fire and Civil Defence Authority's Best Value Performance Plan ("the Plan") in accordance with section 7 of the Local Government Act 1999 and the Audit Commission's *Code of Audit Practice*. We also had regard to supplementary guidance issued by the Audit Commission.**

This report is made solely to West Midlands Fire and Civil Defence Authority, in accordance with Section 7 of the Act. Our audit work has been undertaken so that we might state to the Authority, to the Audit Commission and (where necessary) to the Secretary of State those matters we are required to state to them in such 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

(i) the Authority, for our audit work, for this report, or for the opinions we have formed, (ii) the Audit Commission, for our recommendation under section 7(4)(e) and (iii) the Secretary of State, for our recommendation (if positive) under section 7(4)(f) of the Act.

##### *Respective Responsibilities of the Authority and the Auditor*

Under the Local Government Act 1999 ("the Act"), the Authority is required to prepare and publish a Best Value Performance Plan summarising the Authority's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Authority is responsible for the preparation of the Plan and for the information and assessments set out within it. The Authority is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its plan are derived. The form and content of the Best Value Performance Plan are prescribed in section 6 of the Act and statutory guidance issued by the Government.

As the Authority's auditor(s), we are required, under section 7 of the Act, to carry out an audit of the Best Value Performance Plan, to certify that we have done so, and:

- to report whether we believe that the Plan has been prepared and published in accordance with statutory requirements set out in

section 6 of the Act and statutory guidance and, where appropriate, recommending how the Plan should be amended so as to accord with statutory requirements;

- to recommend:
  - where appropriate, procedures to be followed in relation to the Plan;
  - whether the Audit Commission should carry out a best value inspection of the Authority under section 10 of the Local Government Act 1999;
  - whether the Secretary of State should give a direction under section 15 of the Local Government Act 1999.

## ***Opinion***

### ***Basis of this opinion***

For the purpose of forming our opinion as to whether the Plan was prepared and published in accordance with the legislation and with regard to statutory guidance, we conducted our audit in accordance with the Audit Commission's *Code of Audit Practice*. In carrying out our audit work, we also had regard to supplementary guidance issued by the Audit Commission.

We planned and performed our work so as to obtain all the information and explanations, which we considered necessary in

order to provide an opinion on whether the Plan has been prepared and published in accordance with statutory requirements.

In giving our opinion, we are not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Authority. Our work therefore comprised a review and assessment of the Plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy ourselves that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the Plan complied with the requirements of the legislation and statutory guidance.

Where we have qualified our audit opinion on the plan we are required to recommend how the plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

## ***Opinion***

### **Unqualified opinion**

In our opinion, West Midlands Fire Authority has prepared and published its Best Value Performance Plan in all significant respects in accordance with section 6 of the Local Government Act 1999 and statutory guidance issued by the Government.

We planned and performed our work so as to obtain all the information and explanations that we considered necessary in order to enable us to determine whether or not to make recommendations

in this report on the matters that came to our attention during the audit. However, our work cannot be relied upon to identify every weakness or opportunity for improvement. In particular, it has not necessarily covered the same areas as a Best Value inspection.

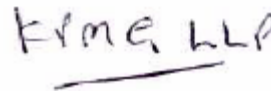
For this purpose, our audit included a review and assessment, and where appropriate, examination on a test basis of evidence relevant to the adequacy of the systems set in place by the Authority for collecting and recording specified performance information; and the testing of specific performance indicators

***Recommendations on referral to the Audit Commission/Secretary of State***

We are required each year to recommend whether, on the basis of our audit work, the Audit Commission should carry out a Best Value inspection of the Authority or whether the Secretary of State should give a direction.

On the basis of our work:

- We do not recommend that the Audit Commission should carry out a Best Value inspection of West Midlands Fire and Civil Defence Authority under section 10 of the Local Government Act 1999;
- We do not recommend that the Secretary of State should give a direction under section 15 of the Local Government Act 1999.



Signature

Date 15/11/2004

KPMG LLP, Chartered Accountants