

# The Audit Plan for West Midlands Fire and Rescue Authority

**Year ended 31 March 2013**

May 2013

**Engagement lead . James Cook**

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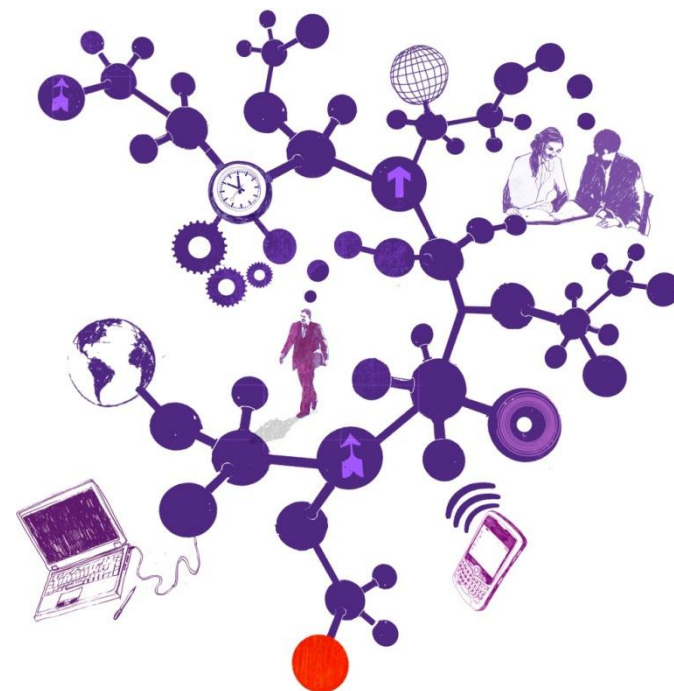
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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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# Contents

## **Section**

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. An audit focused on risks
5. Significant risks identified
6. Other risks
7. Group scope and risk assessment
8. Results of interim work
9. Value for Money
10. Logistics and our team
11. Fees and independence
12. Communication of audit matters with those charged with governance

## **Appendices**

- A. Action plan

# 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					
<b>1. Financial performance pressures</b> The FRA faces significant challenges in future years and beyond, balancing service delivery against its available resources.	<b>2. Financial planning</b> The focus on Financial planning is intensified in times of reducing budgets.	<b>3. Joint working</b> The FRA is exploring opportunities for joint working with other FRAs.	<b>4. Prioritising resources</b> In the coming year the FRA will have to make difficult decisions to prioritise the spending of its resources.	<b>5. National local framework for fire and rescue authorities</b> The FRA is required to implement the Fire and Rescue National Framework 2012 which includes the publication of an annual statement of assurance.	<b>6 Building Upon Success (BuS).</b> The FRA has commenced reviews in a number of areas to ensure it achieves Value for Money. One stream of the BuS project is the vehicle replacement programme.
↓	↓	↓	↓	↓	↓
Our response					
We will review the FRA's financial performance for the year against its agreed budget and monitor performance through discussions with officers and review of Authority papers. We will assess the impact of this on the Value for Money Conclusion.	As part of our work on the Value for Money Conclusion we will review the FRA's arrangements for financial planning.	The progress of collaborative working will be reviewed and monitored through discussions with officers and review of Authority papers. We will assess the impact of this on the Value for Money Conclusion.	We will review the FRA's medium-term financial plan (including use of resources) and the arrangements around developing the plan as part of the work on the Financial Resilience aspect of the Value for Money Conclusion.	As part of our work on the Value for Money Conclusion we will review progress.	As part of our work on the Value for Money Conclusion, we will review progress on the BuS programme, including the vehicle replacement programme.

# 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 and associated guidance.

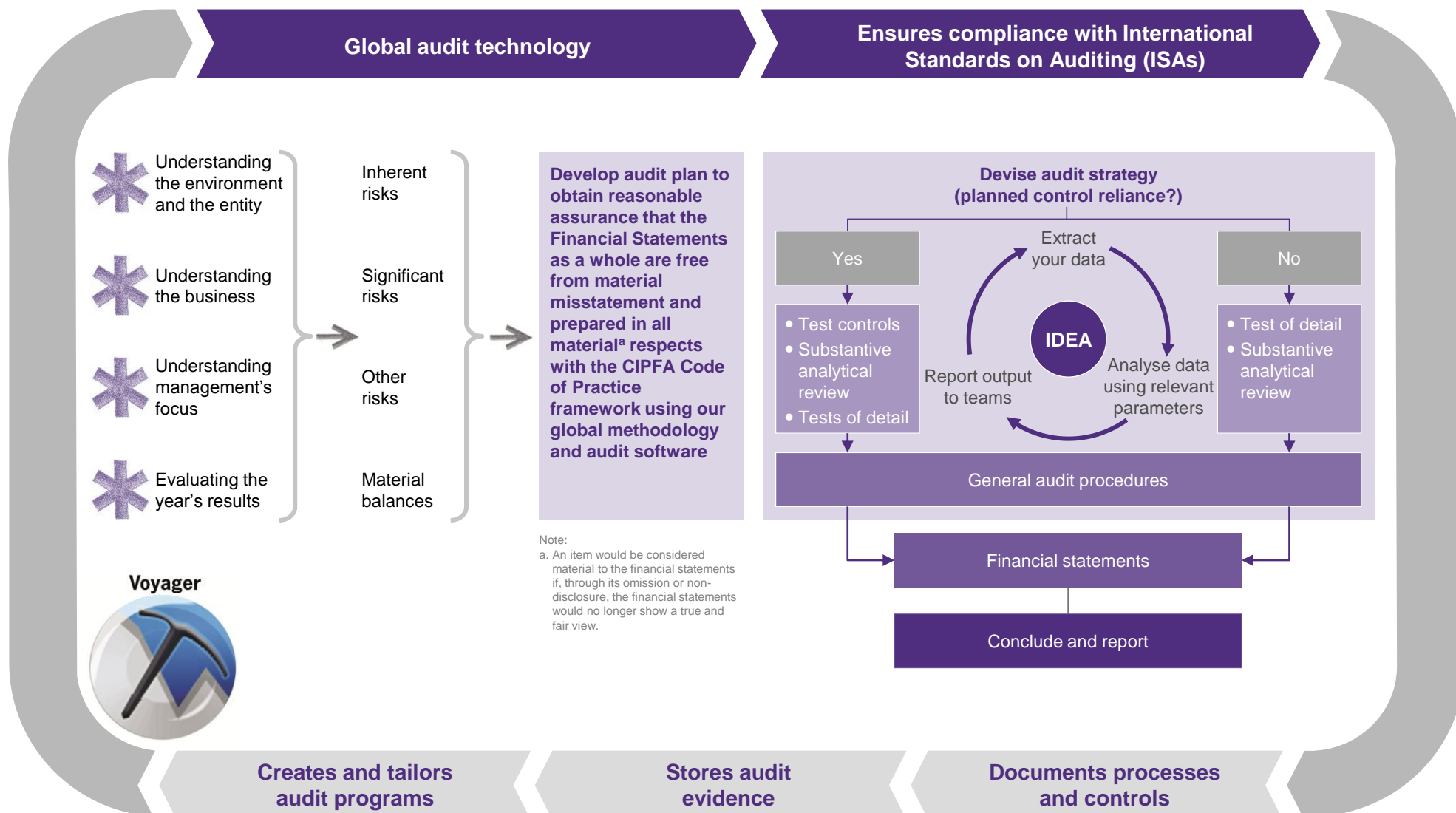
## Developments and other requirements

<b>1. Financial reporting and Whole of Government Accounts (WGA)</b> <ul style="list-style-type: none"> <li>Continuing debate about the treatment of the pension fund top-up grant..</li> <li>Changes to the 2012-13 CIPFA Code of Practice.</li> <li>The Authority is required to submit a Whole of Government (WGA) accounts pack..</li> </ul>	<b>2. Policy developments</b> <ul style="list-style-type: none"> <li>New Fire &amp; Rescue national Framework published in July 2012.</li> <li>New Statement of assurance to be published annually.</li> </ul>	<b>3. Corporate governance</b> <ul style="list-style-type: none"> <li>Annual Governance Statement (AGS).</li> <li>Explanatory foreword.</li> </ul>	<b>4. Pensions</b> <ul style="list-style-type: none"> <li>The Government has announced the broad thrust of its response to the Hutton Report and the changes it plans to make to fire-fighters pensions from 2013/14.</li> <li>There are changes in 2013/14 to the Local Government pension Scheme (LGPS).</li> </ul>	<b>5. Financial pressures and efficiency</b> <ul style="list-style-type: none"> <li>Spending Review means reduction in Fire spending, with the changes back-loaded.</li> <li>Operational efficiency review of the fire service due to report Spring 2013.</li> </ul>	<b>6. Fire and Rescue control rooms</b> <ul style="list-style-type: none"> <li>Following the collapse of the FireControl project, a range of schemes have received funding to enhance the resilience and efficiency of local control rooms.</li> </ul>
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## Our response

<ul style="list-style-type: none"> <li>We will continue to liaise with you, CIPFA and the Audit Commission on the accounting treatment of the pension fund top-up grant.</li> <li>we will test the Authority's compliance with the CIPFA Code of Practice.</li> <li>We will comply with any audit submission requirements for your WGA pack.</li> </ul>	<ul style="list-style-type: none"> <li>We will discuss the impact of new policy developments, including the new assurance statement, at our regular meetings. We will provide a view if appropriate .</li> </ul>	<ul style="list-style-type: none"> <li>We will review the arrangements the Authority has in place for the production of the AGS.</li> <li>We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge.</li> </ul>	<ul style="list-style-type: none"> <li>We will discuss how the Authority is planning to deal with the impact of the pension scheme changes through our regular meetings.</li> </ul>	<ul style="list-style-type: none"> <li>We will review the Authority's performance against the 2012/13 budget, including consideration of performance against the savings plan.</li> <li>Our VFM conclusion will include an assessment of the Authority's financial resilience.</li> <li>We will discuss the Authority's response to the Operational efficiency review with senior management once the report is published.</li> </ul>	<ul style="list-style-type: none"> <li>We will discuss how the Authority is enhancing the resilience and efficiency of the local control room in our meetings with senior management.</li> </ul>
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# Our audit approach



# An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

**Significant** – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

**Other** – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

**None** – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Cost of services - operating expenses	Yes	Operating expenses	Medium	Other	Operating expenses are understated.	✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Employee remuneration accrual understated.	✓
Cost of services – other revenues (fees & charges)	Yes	Other revenues	Low	None		✓
(Gains)/ Loss on disposal of non current assets	No	Property, Plant and Equipment	Low	None		X
Interest payable and similar charges	Yes	Borrowings	Low	None		✓
Interest & investment income	No	Investments	Low	None		×

## An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Impairment of investments	No	Investments	Low	None		×
Income from council tax	Yes	Revenue	Low	None		✓
NNDR Distribution	Yes	Grant Income	Low	None		✓
Revenue support grant & other Government grants	Yes	Grant Income	Low	None		✓
Capital grants & Contributions (including those received in advance)	Yes	Property, Plant & Equipment	Low	None		✓
(Surplus)/ Deficit on revaluation of non current assets	Yes	Property, Plant & Equipment	Low	None		✓
Actuarial (gains)/ Losses on pension fund assets & liabilities	Yes	Employee remuneration	Low	None		✓
Other comprehensive (gains)/ Losses	No	Revenue/ Operating expenses	Low	None		×



## An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Low	None		✓
Heritage assets & Investment property	No	Property, Plant & Equipment	Low	None		X
Intangible assets	No	Intangible assets	Low	None		X
Investments (long & short term)	No	Investments	Low	None		X
Debtors (long & short term)	Yes	Revenue	Low	None		✓
Assets held for sale	No	Property, Plant & Equipment	Low	None		X
Inventories	No	Inventories	Low	None		X
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		✓
Borrowing (long & short term)	No	Debt	Low	None		X
Creditors (long & Short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period Employee remuneration accruals understated	✓
Provisions (long & short term)	No	Provision	Low	None		X

## An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Substantive testing?
Pension liability (Local Government)	Yes	Employee remuneration	Low	None		✓
Pensions Liability - Firefighters	Yes	Firefighters' pensions	Medium	Other	Pension fund member data – actuarial amounts not determined properly/member data not correct and regulatory, legal and scheme requirements not met	✓
Reserves	Yes	Equity	Low	None		X
<b>Fire Fighters' pension Fund Account</b>						
Income to fire fighters pension fund – Contribution receivable	Yes	Fire fighters' pension	Medium	Other	Recorded contributions not correct/Participant allocations not correct/Actuarial amounts not determined properly/Regulatory, legal and scheme rules/requirements not met	✓
Spending by the Fund - Benefits payable	Yes	Fire fighters' pension	Medium	Other	Benefit payments improperly computed/claims liability understated	✓
Transfer in/out	No	Fire fighters' pension	Low	None		X
Top up grant receivable	Yes	Grant income	Low	None		✓
Net current assets and liabilities	Yes	Firefighters' pension	Low	None		✓

# 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>We have considered whether there is a presumed risk of fraud due to improper recognition of revenue.</p> <p>Most of the Authority's revenues are from government grants or from Council Tax precepts which are predictable in timing and value.</p> <p>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>
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><b>Audit Work:</b></p> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgments and decisions made by management</li><li>• Testing of journal entries</li><li>• Review of unusual significant transactions</li></ul>

# Other risks

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).

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Operating expenses understated.	<ul style="list-style-type: none"> <li>We have documented the processes and controls in place over the accounting for operating expenses and carried out walkthrough tests to confirm operation of controls.</li> </ul>	Tests of detail on operating expenses included in the financial statements including: <ul style="list-style-type: none"> <li>substantive testing on a sample of operating expenses.</li> </ul>
Operating expenses	Creditors understated or not recorded in the correct period.	<ul style="list-style-type: none"> <li>We have documented the processes and controls in place around the accounting for trade creditors/accruals and carried out walkthrough tests to confirm operation of controls.</li> </ul>	Tests of detail on trade creditors and accruals in the financial statements including: <ul style="list-style-type: none"> <li>Review of calculation of significant accruals and other items.</li> <li>Review of payments after the year end.</li> </ul>
Employee remuneration	Remuneration expenses (including tax obligations) not correct.	<ul style="list-style-type: none"> <li>We have documented the processes and controls in place around the accounting for employee remuneration and carried out walkthrough tests to confirm operation of controls.</li> </ul>	Tests of detail on employee remuneration including: <ul style="list-style-type: none"> <li>Performance of attribute testing on a sample of employee remuneration payments.</li> <li>Agreement of employee remuneration disclosures in the financial statements to supporting evidence.</li> </ul>
Employee remuneration	Employee remuneration accruals understated.	<ul style="list-style-type: none"> <li>We have documented the processes and controls in place around the accounting for employee remuneration and carried out walkthrough tests to confirm operation of controls.</li> </ul>	Tests of detail on employee remuneration accrual including: <ul style="list-style-type: none"> <li>Agreement of the accrual in the financial statement to supporting evidence.</li> <li>Review of the reconciliation between payroll and the general ledger.</li> </ul>
Fire fighters' pension Scheme Contributions	Recorded contributions not correct/ Participant allocations not correct/ Actuarial amounts not determined properly/ Regulatory, legal and scheme rules/requirements not met.	<ul style="list-style-type: none"> <li>We have commenced documenting the processes and controls in place around the accounting for fire fighters' pensions scheme contributions and carried out walkthrough tests to confirm operation of controls of employee remuneration.</li> </ul>	Tests of detail on fire fighters' contributions including: <ul style="list-style-type: none"> <li>Performance of attribute testing on a sample of fire fighters' pensions scheme contributions</li> <li>Review of arrangements for submission of contribution data to the actuary.</li> </ul>

Other reasonably possible risks	Description	Work completed to date	Further work planned
Fire fighters' pensions member data	Actuarial amounts not Determined properly/member data not correct/regulatory, legal and scheme requirements not met	We have documented the processes and controls in place around the accounting for Fire fighters' pensions member data and carried out walkthrough tests to confirm operation of controls.	<p>Tests of detail on fire fighters' pensions including:</p> <ul style="list-style-type: none"> <li>• Performance of testing on the data submitted by the Authority to the actuary.</li> <li>• Review of the actuarial report, actuarial assumptions and reliance on the use of an expert.</li> <li>• Agreement of pension disclosures in the financial statements to supporting evidence.</li> </ul>
Fire fighters' pensions	Benefit payments improperly computed/ claims liability understated	We have documented the processes and controls in place around the accounting for Fire fighters' pensions and carried out walkthrough tests to confirm operation of controls.	<p>Tests of detail on fire fighters' pensions including:</p> <ul style="list-style-type: none"> <li>• Substantive testing on a sample of fire fighters' pensions.</li> <li>• Agreement of pension disclosures in the financial statements to supporting evidence.</li> </ul>

# Results of interim audit work

## Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the Authority's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

	Work performed	Conclusion/ Summary
Internal audit	<p>We have undertaken a high level review of internal audit's overall arrangements.</p> <p>We have reviewed the plan of work for Internal audit and discussed with them our proposed testing strategy.</p>	<p>Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Authority. Thus, we can take assurance from internal audit work in contributing positively to the internal control environment and overall governance arrangements at the Authority.</p>
Walkthrough testing	<p>Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements (see section titled other risks for detail).</p>	<p>Internal controls were observed to have been implemented in accordance with our documented understanding. We noted one weakness in that we found not all cases where staff had requested a transfer of pensions was updated on the system, resulting in an overstatement of pensions liability. The Authority has now checked all such requests going back to 2009 and found no further cases. The Authority is taking action to correct the cases found. We have agreed that although the value of the error is not material, the Authority should consider amending the accounts for this error.</p>
Fixed Assets	<p>We have documented the process and controls in place for this system. We have confirmed rights and obligations by verifying deeds and have tested the existence of assets.</p>	<p>No issues noted from our work.</p>

## Results of interim audit work (continued)

	Work performed	Conclusion/ Summary
<b>Review of information technology (IT) controls</b>	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We concluded that, from the work undertaken to date, there are no material weaknesses which are likely to adversely impact on the Authority's financial statements.</p>	<p>No significant issues were noted. IT controls were observed to have been implemented in accordance with our documented understanding.</p> <p>We have noted two very minor weaknesses which we are currently discussing with management to confirm our understanding.</p>
<b>Journal entry controls</b>	<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> <p>We have undertaken journals testing for the first 10 months.</p>	<p>No issues have been noted from our review of journals. We will review remaining journals as part of our accounts audit.</p>

# Value for Money

## Introduction

The Code of Audit Practice 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.

## 2012/13 VfM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Authority's priority areas and can be used as a source of assurance members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to Audit Committee.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Authority on a review-by-review basis.

## Code criteria

The Authority has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources

We will consider whether the Authority is prioritising its resources with tighter budget

## Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control.

Specifically we will:

- Continue to monitor the Authority's progress and delivery of outturn against budget to the end of the financial year.
- Review the Authority's medium term financial plan and the adopted assumptions.
  - Review evidence already available, particularly with regard to the BuS project and vehicle replacement programme and outcome of the operational assessment.



# Logistics and our team



Date	Activity
Jan 13	Planning meeting
Feb-Mar 2013	Interim site work
June 2013	The audit plan presented to Audit Committee
July 2013	Year end fieldwork commences
August 2013	Audit findings clearance meeting
September 2013	Audit Committee/Full Authority meeting to report our findings
September 2013	Sign financial statements and VfM conclusion and submit WGA
October 2013	Issue Annual Audit Letter

## Our team

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**Assistant Manager**  
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# Fees and independence

## Fees

	£
Authority audit	51,515
Total	51,515

## Fees for other services

Service	Fees £
None	Nil

## Our fee assumptions include:

- Our fees are exclusive of VAT
- 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](http://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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# Action plan for matters arising during the interim audit work

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Authority should ensure that the pensions accounting records are updated when staff leave and transfer their pensions elsewhere.			



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