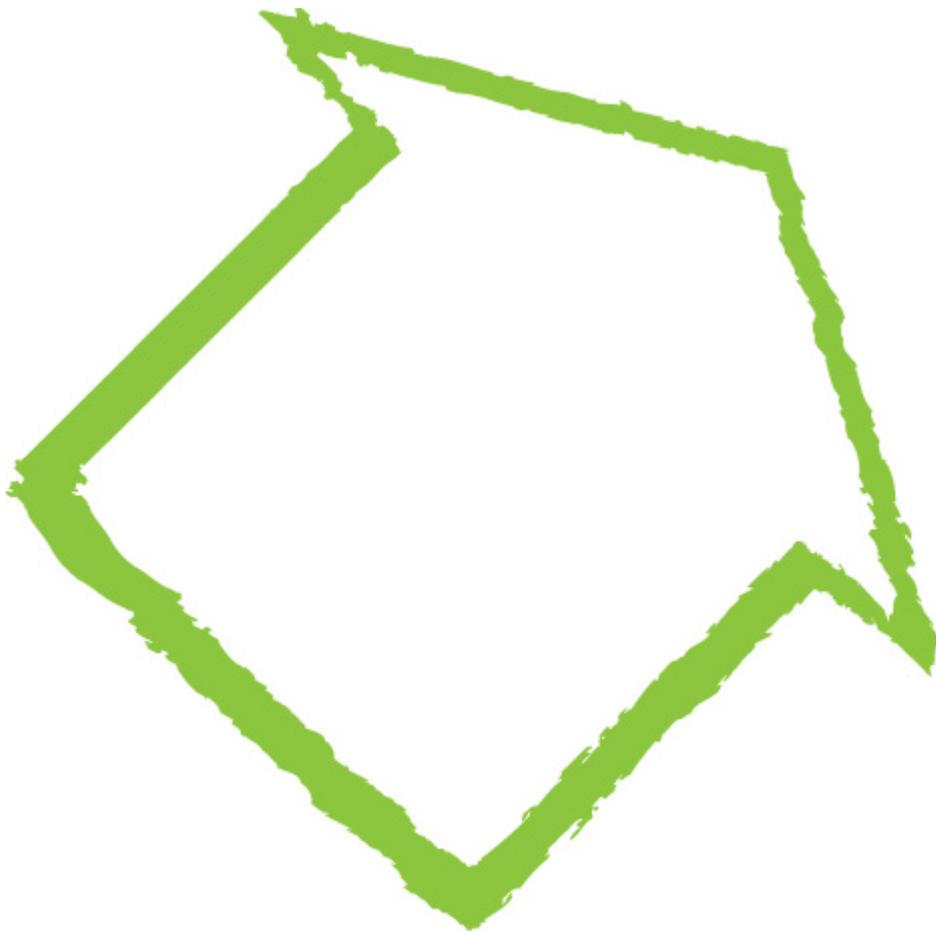


Audit Opinion Plan

West Midlands Fire and Rescue Authority

Audit 2009/10

May 2010



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Introduction

- 1 This plan sets out the audit work that we propose to undertake for the audit of financial statements 2009/10 and the key deadlines and milestones for 2009/10. The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:
 - audit work specified by the Audit Commission for 2009/10;
 - current national risks relevant to your local circumstances; and
 - your local risks.

Responsibilities

- 2 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.
- 3 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.
- 4 We comply with the statutory requirements governing our audit work, in particular:
 - the Audit Commission Act 1998; and
 - the Code of Audit Practice.

Fee for the audit of financial statements

- 5 The fee for the audit is £87,850 (excluding VAT), as indicated in my predecessor's letter of 28 April 2009.
- 6 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of accounts is consistent with that for 2008/09
 - Internal Audit undertakes appropriate work on all material systems and this is available for our review by 30 April 2010 at the latest.
 - You will inform us of any significant developments impacting on the audit.
- 7 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, we will discuss this in the first instance with the Director of Finance and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.
- 8 Further information on the basis for the fee is set out in Appendix 1.

Auditors report on the financial statements

- 9 I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 10 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the FRA as at 31 March 2010.

Identifying opinion audit risks

- 11 As part of our audit risk identification process, we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
 - identifying the business risks facing the FRA, including assessing your own risk management arrangements;
 - considering the financial performance of the FRA;
 - assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
 - assessing the risk of material misstatement arising from the activities and controls within the FRA information systems.

Identification of specific risks

12 We have considered the specific risks that are appropriate to the current opinion audit and have set these out below.

Table 1 **Specific risks**
Specific opinion risks identified

Risk area	Audit response
<p>Fixed Asset valuations. The Authority is undertaking a full valuation of Assets for 2009/10, which is likely to lead to material movements in valuations because it is five years since the previous full valuation.</p>	<p>We will consider the reasonableness of valuations held in the Authority's Balance Sheet and also look at the instructions issued to the valuer.</p> <p>Also we will obtain direct confirmation to ensure the objectivity, independence and competence of the expert.</p>
<p>At systems testing we were unable to confirm if there were controls in place to check the accuracy of the brought forward balances.</p> <p>The Authority place reliance on the Sandwell MBC ledger to accurately carry forward balances.</p>	<p>We will carry out testing to ensure that balances brought forward are correctly stated.</p>
<p>Our testing identified some weaknesses in controls over journals, which we reported to you last year.</p> <p>Journals are not (sequentially) numbered.</p> <p>Journals below £10k are not checked by a senior office prior to processing.</p> <p>Any financial management staff can input a journal, with no system restrictions on access or value of journal.</p> <p>Controls have since been implemented for journals >£10k.</p>	<p>We will carry out an increased sample of testing to mitigate this weakness.</p>

Risk area	Audit response
<p>The 2009 SoRP changes the accounting treatment of council tax. The changes recognise that billing authorities act as agents for major precepting authorities. Major precepting authorities (such as WMFRA) must now account for the amount of council tax billed on their behalf.</p>	<p>We will review the arrangements put in place by the Authority to validate the information provided by the billing authority. For example, has the authority checked to ensure that the data is consistent with the billing authority's audited accounts for prior years?</p> <p>We will ensure that the Authority has obtained the relevant information, and has evaluated, validated and calculated correctly the entries in financial statements.</p>

Testing strategy

- 13 On the basis of risks identified we will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.
- 14 Our testing is carried out both before and after the draft financial statements have been produced (pre- and post-statement testing). Where we elect to test compliance with key controls (which for our purposes are those controls that may prevent or detect material misstatement against the specific management assertions) and our controls testing is successful then, under certain circumstances, we can place reliance on these controls for three years. However, if there are circumstances such as changes to the financial system or to key staff we have to test controls again within the three-year cycle.
- 15 Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities. We have updated our review of key systems as listed at Table 2.

Table 2

System	2008/09	2009/10
Balance Sheet		
Debtors	Documented and tested in conjunction with Internal Audit.	Walkthrough of system. Internal Audit has also tested system. Reliance can be placed on controls in place.
Creditors	Documented and tested in conjunction with Internal Audit.	Walkthrough of system. Internal Audit has also tested system. Reliance can be placed on controls in place.
Pensions	Documented and tested in conjunction with Internal Audit. Also substantive testing of pensions was undertaken at post statements audit.	Documented and tested in conjunction with Internal Audit. Reliance can be placed on controls in place. Will substantively test the actuarial report.

System	2008/09	2009/10
Cash	Documented system. Limited controls as SMBC provide service. Year end reconciliations and cut-off testing undertaken.	Walkthrough of system. We will review year end bank reconciliations and carry out cut-off testing to confirm that all income has been posted to the correct year.
Income and Expenditure		
Payroll	Documented and tested in conjunction with Internal Audit. Reliance on Controls	Walkthrough of system. Reliance on Controls
Pensions	Documented and tested. Reliance on controls	Walkthrough of system. Tested in conjunction with Internal Audit. Reliance on Controls
General Ledger	Documented and tested Reliance on controls	Walkthrough of system. Reliance on Controls
Sandwell MBC systems		
General Ledger, cash, treasury management, VAT, valuation and some elements of debtors system.	Assurance from KPMG Documented and tested where appropriate those elements of the systems that operate at the FRA.	We will write to KPMG to request assurance over these systems. We have documented, walked through and tested (where appropriate) those elements that operate at the FRA.

Key milestones and deadlines

- 16 The FRA is required to prepare the financial statements by 30 June 2010. We are required to complete our audit and issue our opinion by 30 September 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 3.
- 17 We have agreed a schedule of working papers required to support the entries in the financial statements.
- 18 Every week, we will meet with the key contact and review the status of all queries. If appropriate, we will meet at a different frequency depending upon the need and the number of issues arising.

Table 3 Proposed timetable

Task	Deadline
Control and early substantive testing	February to April 2010
Receipt of accounts	23 June 2010
Forwarding audit working papers to the auditor	5 July 2010
Start of detailed testing	5 July 2010
Progress meetings	Weekly
Draft Governance report to officers	30 August 2010
Present report to those charged with governance	TBC
Issue opinion	By 30 September 2010

The audit team

19 The key members of the audit team for the 2009/10 audit are shown in the Table 4.

Table 4 **Audit team**

Name	Contact details	Responsibilities
John Gregory District Auditor	j-gregory@audit-commission.gov.uk 0844 798 1143	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Fire Officer.
Pragati Raithatha Audit Manager	p-raithatha@audit-commission.gov.uk 0844 798 3959	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Lorraine Noak	l-noak@audit-commission.gov.uk 0844 798 3971	Leads the work on site.

Independence and objectivity

- 20 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 21 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Meetings

- 22 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

Quality of service

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact Phil Jones, West Midlands Head of Operations (p-jones@audit-commission.gov.uk).

- 23** If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.

Planned outputs

- 24** Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Table 5 **Planned outputs**

Planned output	Indicative date
Draft opinion audit plan	17 May 2010
Annual governance report	8 September 2010
Auditor's report giving an opinion on the financial statements	30 September 2010
Final accounts memorandum (if applicable)	30 October 2010
Annual Audit Letter	22 November 2010

Appendix 1 – Basis for fee

- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying to the Authority with reference to:
 - our cumulative knowledge of the Authority;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Authority officers; and
 - liaison with Internal Audit.

Assumptions

- 3 In setting the fee, I have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09;
 - you will inform us of significant developments impacting on the audit;
 - Internal Audit meets the appropriate professional standards;
 - Internal Audit undertakes appropriate work on the agreed systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit
 - good quality working papers and records will be provided to support the financial statements by 5th July;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Full Authority/Executive Committee
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

- 6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
 - Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
 - The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
 - The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- 7 The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 – Working together

Meetings

- 1 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers.
- 2 Our proposal for the meetings is as follows.

Proposed meetings with officers

Officers	Audit Commission staff	Timing	Purpose
Director of Finance and Procurement	AM and Team Leader (TL)	January April and August	General update plus: January - audit plan August - annual governance report
Finance Manager	AM and (TL)	Quarterly	Update on audit issues
Audit Committee and/or TCWG	DA and AM, with TL as appropriate	As determined by the Committee	Formal reporting of: Audit Plan Annual governance report Other issues as appropriate

Sustainability

- 3 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
 - reducing paper flow by encouraging you to submit documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as appropriate; and
 - reducing travel.

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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