

# Audit and Inspection Plan

**West Midlands Fire and Rescue Authority**

**Audit 2007/08**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

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## Introduction

- 1 This plan has been developed by the Relationship Manager and Appointed Auditor, John Gregory. It sets out the audit and inspection work we propose to undertake for the 2007/08 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of the fire and rescue performance assessment framework which reflects:
  - audit and inspection work specified by the Audit Commission for 2007/08;
  - current national risks relevant to your local circumstances; and
  - your local risks and improvement priorities.
- 2 As we are new to the audit and the outgoing auditors, KPMG LLP, have not yet completed their audit for 2006/07, the audit planning process for 2007/08, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

## Responsibilities

- 3 We comply with the statutory requirements governing our audit and inspection work, in particular:
  - the Audit Commission Act 1998;
  - the Local Government Act 1999;
  - the Fire and Rescue Services Act 2004; and
  - the Code of Audit Practice (the Code).
- 4 The Code defines auditors' responsibilities in relation to:
  - the financial statements (including the statement on internal control (SIC)); and
  - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 5 The Audit Commission's statement of responsibilities of auditors and of audited bodies sets out the respective responsibilities of the auditor and the fire and rescue authority (FRA). The Audit Commission has issued a copy of the Statement to every audited body.
- 6 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our work is undertaken in the context of these responsibilities.

## Fire and rescue performance assessment framework

- 7 The Audit Commission's fire and rescue performance assessment framework is underpinned by the principle of targeting our work where it will have the greatest effect.
- 8 The FRA was assessed by the Audit Commission as 'good' in the 2005 comprehensive performance assessment. The Audit Commission's recent assessment in April 2007 of the FRA's Direction of Travel (DOT) under the performance assessment framework was 'improving well'. The scorecard noted outcomes are improving in national and local priority areas and also identified areas for further development.
- 9 Our inspection activity at West Midlands Fire Authority (WMFA) for 2007/08 is shown in the table below. The Audit Commission is consulting on the performance framework and results of this are yet to be published. Any required changes will be built into the planned work.

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**Table 1      Summary of planned inspection activity**

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| Inspection activity                  | Reason/impact   |
|--------------------------------------|---|
| Relationship Manager (RM) role       | To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.  |
| Direction of Travel (DoT) assessment | An annual scored assessment, carried out by the RM, of improvement or deterioration in performance. The assessment will be outcome-focused and will draw together other assessments of the FRA. The DoT label will be reported in the performance assessment framework scorecard published in March 2008. |

| Inspection activity | Reason/impact  |
|---------------------|--|
| Service assessment  | A scored assessment which has an emphasis on service delivery. It includes a performance information element, and an operational assessment of service delivery provided by Communities and Local Government. There will be no new operational assessment for 2007/08, so the score from the previous one will be used, alongside new PI data, to determine the service assessment score. The service assessment will be reported in the performance assessment framework scorecard published in March 2008. |

## Work under the Code of Audit Practice

### Financial statements

- 10 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 11 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the FRA as at 31 March 2008 and its income and expenditure for the year.
- 12 We are also required to review whether the SIC has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the SIC is misleading or inconsistent with our knowledge of the FRA.

### Use of resources

#### Value for money conclusion

- 13 The Code requires us to issue a conclusion on whether the FRA 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 conclusion. The Code also requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 14 In meeting this responsibility, we will review evidence that is relevant to the FRA's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators, for example DCLG, we will normally place reliance on their reported results to inform our work.
- 15 We target our work at local risk areas to allow us to better understand the issues and reach the conclusion. We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

#### Use of resources assessment

- 16 The Audit Commission has specified that auditors will complete a use of resources assessment for 2007/08. The use of resources assessment evaluates how well the FRA manages and uses its financial resources. It focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the FRA's priorities and improve services.

The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the auditor's value for money conclusion. It has been agreed with your outgoing auditors, KPMG LLP, that they will carry out this work as they currently have greater knowledge of your activities and the work dovetails with the VFM conclusion which they are required to give as part of their work on your 2006/07 accounts. They will arrive at a score of 1 to 4, based on underlying key lines of enquiry, for each of the following themes.

**Table 2 - Use of resources themes**

| Theme                | Description   |
|----------------------|---|
| Financial reporting  | <ul style="list-style-type: none"> <li>• Preparation of financial statements</li> <li>• External reporting</li> </ul>                       |
| Financial management | <ul style="list-style-type: none"> <li>• Medium-term financial strategy</li> <li>• Budget monitoring</li> <li>• Asset management</li> </ul> |
| Financial standing   | <ul style="list-style-type: none"> <li>• Managing spending within available resources</li> </ul>  |
| Internal control     | <ul style="list-style-type: none"> <li>• Risk management</li> <li>• System of internal control</li> <li>• Probity and propriety</li> </ul>  |
| Value for money      | <ul style="list-style-type: none"> <li>• Achieving value for money</li> <li>• Managing and improving value for money</li> </ul>             |

- 17 KPMG LLP will report details of the scores and the judgements made to the FRA. The scores will be accompanied, where appropriate, by recommendations of what the FRA needs to do to improve its performance.
- 18 The auditor's scores and judgements are reported to the Audit Commission to feed into the fire and rescue performance assessment framework. The use of resources assessment will be reported in the performance assessment framework scorecard published in March 2008.

## Best Value Performance Plan

- 19 We are required to carry out an audit of your Best Value Performance Plan (BVPP) and report on whether it has been prepared and published in accordance with legislation and statutory guidance.



## **Other Work specified by the Audit Commission**

### **Data quality**

- 20** The Audit Commission is considering whether to specify work for 2007/08 on data quality at FRAs. This would be in addition to the high-level review of management arrangements for ensuring data quality that is already undertaken to inform the value for money conclusion. The Commission will consult with FRAs before confirming the approach for 2007/08.

### **Whole of government accounts (WGA)**

- 21** We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office.

### **National Fraud Initiative**

- 22** The FRA participates in the National Fraud Initiative which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated on public bodies. This work will be carried out by an individual appointed to assist in the audit of the FRA's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).

## Voluntary improvement work

- 23 Under section 35 of the Audit Commission Act 1998, the Commission may undertake voluntary improvement work at the request of the audited body. At present no voluntary improvement work has been planned for 2007/08.

## Assessing risks

- 24** 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 our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 25** Our risk assessment process starts with the identification of the significant financial and operational risks applying at the FRA with reference to:
- our cumulative knowledge of the FRA;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
  - interviews with FRA officers;
  - liaison with Internal Audit; and
  - the results of other review agencies' work where relevant.

## Financial statements risk assessment

- 26** We have not included a detailed risk assessment for our audit of the financial statements as many of the specific risks may not become apparent until after the 2006/07 audit has been completed. If appropriate, we will then issue a separate opinion audit plan for our audit of the financial statements.
- 27** At this stage we are aware of the following risks that are likely to impact on our audit opinion on the financial statements, and which could impact on the Financial Reporting score in the Use of Resources assessment. Some of these may also impact in 2006/07.
- The 2006 and 2007 CIPFA Statement of Recommended Practice (SORP) for local government accounting standards will bring significant changes to the format of the financial statements, which increases the risk of mis-statement. Existing complex technical requirements around capital accounting, FRS 17, reserves and provisions remain.
  - The financial statements are required to be prepared by the end of June and to be audited by the end of September. Auditors will continue to work with finance officers in order to continue to deliver the closure timetable and our own opinion work to the due dates.
  - The development of FRA companies, eg for control rooms and for procurement, means the relationships will have to be assessed by officers following CIPFA guidance for their appropriate inclusion and group accounts may be required to be prepared and audited.
  - The new fire-fighters pension fund accounting is required by the SORP for the first time in 2006/07 but will remain a risk in 2007/08 as it requires a separate statement in the accounts and in the opinion and is audited to its own materiality and risks.
  - Updated systems are being planned.

## Use of resources risks

- 28** For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the FRA to mitigate the risk, and plan our work accordingly. The risks will be updated through our continuous planning processes as the year progresses.

## The audit and Inspection fee

- 29 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2007/08. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 30 The total indicative fee for the audit work included in this audit plan for 2007/08 is £71,628 which compares with the planned fee of £75,000 for 2006/07. The reduction is due to the KPMG undertaking the Use Of Resources work for 2007 to 2008 and we have not therefore included a charge for this work in our plan.
- 31 Further details are provided in Appendix 1 which includes a breakdown of the fee; specific audit risk factors; the assumptions made when determining the audit fee, for example, the timeliness and quality of draft accounts presented for audit and the supporting working papers; specific actions WMFA could take to reduce its audit fees; and the process for agreeing any changes to the fee. The audit fee includes all work identified in this plan unless specifically excluded.
- 32 As stated, the audit planning process will continue as the year progresses and it is likely that there will be some changes to our planned work and hence to the indicative fee quoted in paragraph 31 above. Any changes to the fee will be agreed with you.

## Other information

### The audit team

- 33 The key members of the audit team for the 2007/08 audit are shown in the table below.

**Table 3**

| Name                                     | Contact details  | Responsibilities   |
|--|--|--|
| John Gregory<br>Relationship<br>Manager  | <a href="mailto:j-gregory@audit-commission.gov.uk">j-gregory@audit-commission.gov.uk</a><br>Tel: 0121 224 1119     | The primary point of contact with the FRA and the interface at the local level between the Commission and other key stakeholders.  |
| John Gregory<br>District Auditor         | <a href="mailto:j-gregory@audit-commission.gov.uk">j-gregory@audit-commission.gov.uk</a><br>Tel: 0121 224 1119     | Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with senior officers including as appropriate the Chief Officer and the Director of Finance. |
| Pragati Raithatha<br>Audit Manager       | <a href="mailto:p-raithatha@audit-commission.gov.uk">p-raithatha@audit-commission.gov.uk</a><br>Tel: 0121 303 3559 | Manages and co-ordinates the different elements of the audit work. Key point of contact for the Director of Finance.   |
| Gary Stevens<br>Area Performance<br>Lead | <a href="mailto:g-stevens@audit-commission.gov.uk">g-stevens@audit-commission.gov.uk</a><br>Tel: 0121 733 7173     | Responsible for the delivery of elements of the use of resources work, including the value for money theme of the use of resources assessment, and elements of the direction of travel assessment.                               |

## Independence and objectivity

- 34 We are 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. We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 2.

## Quality of service

- 35 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 John Gregory the District Auditor in the first instance. Alternatively you may wish to contact Phil Jones, Head of Operations for the West Midlands.
- 36 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.

- 37 Our reports will be discussed and agreed with the appropriate officers before being issued formally.

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**Table 3**

| <b>Planned output</b>  | <b>Indicative date</b> |
|--|------------------------|
| Opinion audit plan (if required)                                   | June 2008              |
| Fire and rescue performance assessment framework scorecard         | March 2008             |
| Interim audit memorandum   | as required            |
| Annual governance report   | September 2008         |
| Opinion on the financial statements and value for money conclusion | September 2008         |
| WGA audit report   | October 2008           |
| Final accounts memorandum (to the Director of Finance)             | October/November 2008  |
| BVPP report  | December 2008          |
| Annual audit and inspection letter                                 | March 2009             |



## Appendix 1 – Audit fee

- 1 Table 5 provides details of the planned audit and inspection fee for 2007/08 with a comparison to the planned fee for 2006/07.

**Table 5**

| <b>Audit area</b>   | <b>Planned fee<br/>2007/08<br/>£</b> | <b>Planned fee<br/>2006/07<br/>£</b> |
|---|--------------------------------------|--------------------------------------|
| <b>Audit</b>  |                                      |                                      |
| Planning, Review and reporting  | 15, 637                              | -                                    |
| Financial statements (including whole of government accounts)   | 38,870                               | 35,000                               |
| Work to support VFM conclusion  | 16,771                               | 40,000                               |
| National Fraud Initiative   | 350                                  | -                                    |
| Total audit fee   | 71,628                               | 75,000                               |
| <b>Inspection</b>   |                                      |                                      |
| Relationship Management and Direction of Travel assessment inspection fee funded directly by grant from DCLG to the Audit Commission. | 14,774                               | 19,836                               |
| Certification of grant claims   | -                                    | -                                    |
| Voluntary improvement work  | -                                    | -                                    |

- 2 The Audit Commission scale fee for WMFRA is £62,018. The fee proposed for 2007/08 is +15 per cent compared to the scale fee and is within the normal level of variation specified by the Commission. The planned 2007/08 fee is lower than the fee for the previous year as Use of resources work has not been included. This work is to be performed by KPMG and billed directly by them in this interim year.
- 3 The comparators for the two years above are different due to the change in auditors and only the total fee is directly comparable.

- 4 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 5 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the FRA. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.

- 6 The audit fee will not attract the new burdens grant of £10,000 that was received by the FRA in 2006/07. The grant has not continued to 2007/08.
- 7 The fee (plus VAT) will be charged in 12 instalments from April 2007 to March 2008.

## **Specific audit risk factors**

- 8 In setting the audit fee we have taken into account the risk factors brought to our attention by the current auditors and management during our planning meetings.

## **Assumptions**

- 9 In setting the fee, we have assumed that:
  - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2006/07;
  - you will inform us of significant developments impacting on our audit;
  - internal audit meets the appropriate professional standards;
  - internal audit undertakes appropriate work on all 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 the date of approval;
  - requested information will be provided within agreed timescales;
  - prompt responses will be provided to draft reports; and
  - officers will choose to provide new evidence and an updated local self assessment to support the Use of Resources judgements.
- 10 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when the opinion audit plan is revisited.
- 11 Changes to the plan will be agreed with you. These may be required if:
  - new residual audit risks emerge;
  - additional work is required of us by the Audit Commission or other regulators; and
  - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

## **Specific actions the FRA could take to reduce its audit fees**

- 12** The Audit Commission requires its auditors to inform the FRA of specific actions it could take to reduce its audit fees. We have identified the following actions the FRA could take.
- Continue to improve the good standard of work papers to support the financial statements and improve the qualitative processes for their production to avoid presentational issues.
  - Address points raised in the final accounts memorandum and governance reports for 2005/06 and 2006/07, so they are not repeated.
  - Provide prompt responses to audit queries arising on the financial statements and other areas.
  - Internal Audit document and test the controls to all material feeder systems to the general ledger. The work will be available for our review to an agreed timescale to allow most efficient use of resources.
  - The updated self-assessments that officers have chosen to provide for Use of Resources judgements continue to be supported by robust evidence.
  - Improvement opportunities identified in the use of resources reports are implemented.
  - Continue to take appropriate action on the key areas identified for improvement following the Direction of Travel review.
  - Implement the agreed recommendations included in past reports on use of resources.

## **Process for agreeing any changes in audit fees**

- 13** If we need to amend the audit or inspection fees during the course of this plan, we will discuss this with the Treasurer. We will then outline our reasons why the fee needs to change in writing.

## 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 my 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 Fire Authority 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 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.
- The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.