Grant Thornton

The Audit Findings for West Midlands Fire and Rescue Authority

---

Year ended 31 March 2020

5 October 2020

Contents

Your key Grant Thornton team members are:

Richard Percival
Director
T: 0121 232 5434
E: richard.d.Percival@uk.gt.com

Kiran Hussain
Assistant Manager
T: 0121 232 5107
E: kiran.hussain@uk.gt.com

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of West Midlands Fire and Rescue Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Authority. Including changing patterns of demand and providing logistical support to local authority partners and other emergency services in managing the crisis.

The finance team have also had to consider managing staff sickness, access to systems and team capacity.

Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.

We updated our audit risk assessment to consider the impact of the pandemic on our audit as the outbreak progressed. Per our audit plan (presented to the Audit and Risk Committee on July 2020) we designated a financial statement level significant risk in respect of Covid -19 and highlighted that there was no impact on our VfM approach. Further detail is set out on page 6.

Restrictions on non-essential travel has meant both Authority and audit teams have had to work remotely including, remote accessing financial systems, video calling, alternative procedures for the physical verification of assets and completeness and accuracy of information produced by the entity.

Inevitably the remote working has impacted on delivery and additional time and resources have been necessary on both sides to complete the work in accordance with the new extended reporting timetable.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Authority's financial statements:

- give a true and fair view of the financial position of the Authority and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed from June to September and our findings are summarised on pages 6 to 13. There is one adjustment to the financial statements that has resulted in the net pension liability decreasing by £9.6 million. This is due to further guidance on the McCloud/Sergeant case remedy issued in July. There is no impact on the Authority's reported General Fund balance. Audit adjustments are detailed in Appendix A.

Our work is substantially complete and there are no further matters of which we are aware that would require modification of our proposed audit opinion or material changes to the financial statements, subject to the outstanding matters outlined on page 5 ("Audit Approach")

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. The financial statements we have audited is up until 31 March 2020 which was predominantly prior to the outbreak of the Covid-19 coronavirus pandemic.

Our anticipated audit report opinion will be unqualified. We will include an Emphasis of Matter paragraph, highlighting a material uncertainty in relation to the valuation of PPE as a result of wider economic uncertainty stemming from the impact of the Covid 19 pandemic. Further details are provided later on in the report however it should be noted that this is a sector wide issue and is not indication of any control issues at West Midlands Fire and Rescue Authority.

Headlines (continued)

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Authority's value for money arrangements. We have concluded that West Midlands Fire and Rescue Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We did not identify any new VfM risks in relation to Covid-19. There is continuing uncertainty over the Authority's future funding and we considered the impact of this the Authority's financial sustainability. We concluded that there are satisfactory arrangements in place, but noted the following. • The potential for the Authority to face significant increases in its pension contribution costs and the continuing uncertainty about the financial impact of the Covid19 pandemic highlights the need for the Authority to carefully manage its General Fund balances. • The need for savings and income generation to ensure the Authority maintains an adequate level of reserves needs to be kept under review. We anticipate issuing an unqualified value for money conclusion. Our findings are summarised from page 16.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice (‘the Code’). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Authority's business and is risk based, and included:

- an evaluation of the Authority's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and subject to completion of the outstanding below, we anticipate issuing an unqualified audit opinion following the Authority meeting on 5 October 2020. These outstanding items include:

- Completion of Engagement Lead file review
- Receipt of the Assurance Letter from the Pension Fund external auditor to admitted body auditors;
- Receipt of management representation letter;
- Updating our post balance sheet events review to the date of signing the opinion; and
- Review of the final set of financial statements.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Materiality levels remain the same as reported in our audit plan. We detail in the table below our assessment of materiality for West Midlands Fire and Rescue Authority.

	Authority Amount (£k)	Qualitative factors considered
Materiality for the financial statements	2,400	Financial performance of the Authority focussing on the cost of services.
Performance materiality	1,800	Quality of working papers in prior year and Authority response to audit processes.
Trivial matters	120	The amount below which matters would be considered trivial to the reader of the accounts.
Materiality for specific transactions, balances or disclosures	25	Materiality has been reduced for remuneration disclosures to £50k due to its sensitive nature and public interest.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have carried out the following. • Worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation’s ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 26 June 2020; • Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Authority property valuation expert; • Evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • Evaluated whether sufficient audit evidence could be obtained through remote technology; • Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • Evaluated management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
ISA240 revenue risk – The revenue cycle includes fraudulent transactions (Rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we determined that the risk of fraud arising from revenue recognition could be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Fire and Rescue Authorities, mean that all forms of fraud are seen as unacceptable. Therefore, we did not consider this to be a significant risk for West Midlands Fire and Rescue Authority. There were no changes to our assessment as reported in the audit plan that we need to bring to your attention.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. . The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, this was one of the most significant assessed risks of material misstatement.	We: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions • Our audit work has not identified any significant issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings The Authority revalues its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£124 million) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2020. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement As a result of Covid-19 and advice from RICS valuers who have stated in their reports that there is a material uncertainty in relation to PPE valuation.	We: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work • Evaluated the competence, capabilities and objectivity of the valuation expert • Wrote to the valuer to confirm the basis on which the valuation was carried out to ensure the requirements of the Code were met • Challenged the information and assumptions used by the valuer to assess completeness and consistency with out understanding • Tested the full valuation at 31 March 2020 to understand the information and assumptions used in arriving at any revised valuations • Tested revaluations made during the year to see of they had been input correctly into the Authority's asset register Due to the outbreak of Covid-19 market activity is being impacted in many sectors. Many valuers have considered that less weight can be attached to previous market evidence to inform their opinions of value. They have therefore reported to the authorities on the basis of 'material valuation uncertainty'. This is the case for West Midlands Fire and Rescue Authority. Your valuer has identified a valuation uncertainty relating to the impact of Covid-19. We intend to include a material valuation uncertainty emphasis of matter paragraph in our audit opinion. It should be noted that this is a sector wide issue and is not indication of any control issues at West Midlands Fire and Rescue Authority.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of the pension fund net liability **Fire Fighter and Local Government Pension Scheme** The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	The Authority's total net pension liability at 31 March 2020 is £1,697m (Prior Year £1,805m) comprising the Local Government Pension Scheme (LGPS) and the Fire Fighters' Pension (unfunded) schemes. The Authority uses Barnett Waddingham for the LGPS Pension Schemes to provide an actuarial valuation of the Authority's assets and liabilities derived from the West Midlands scheme and the Government Actuary Department (GAD) for the Fighters' Pension Scheme. A full actuarial valuation is required periodically. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.. We have • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management experts (actuaries) for this estimate and the scope of the actuaries' work; • assessed the competence, capabilities and objectivity of the actuaries who carried out the Authority's pension fund valuations; • assessed the accuracy and completeness of the information provided by the Authority to the actuaries to estimate the liabilities; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuaries; • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • reviewed the inclusion of remedy within the actuary report • LGPS - requested assurances from the auditor of West Midlands Pension Fund (WMPF) as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. As at the time of drafting, we are waiting for responses to our request for assurance from the auditors of WMPF. In July 2020 HM Treasury issued further guidance on assessing the impact of the McCloud/Sargeant remedy. As the actuary assessed this as having a material impact, reducing the pension liability by £9.6m, the final version of the accounts have been adjusted.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £m	Other land and buildings comprises of Fire Stations, HQ and workshops which are classed as specialised assets, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The Authority has engaged an external valuer to complete the valuation of properties as at 31 March 2020. A full valuation of all land and buildings has been undertaken for 2019/20. The Authority's valuer has not disclosed a material uncertainty in the valuation of the Authority's land and buildings at 31 March 2020 as a result of Covid-19.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuers to confirm the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register **Conclusion** A material valuation uncertainty is reported in the accounts and will be referred to in our audit opinion.	● Green

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

<table>
<tr><th>Accounting area</th><th>Summary of management’s policy</th><th>Auditor commentary</th><th>Assessment</th></tr>
<tr>
<td>Fire Fighter Net pension liability – £1,655.0m</td>
<td>The Authority’s total net pension liability for Fire Fighter Pensions at 31 March 2020 is £1,655.0m (Prior Year £1,758.6m) comprising of all Fire Fighter Pension Schemes. The Authority uses GAD to provide actuarial valuations of the Authority’s assets and liabilities derived from these schemes.

The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy ,discount rates ,salary growth and investment return .Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</td>
<td>We have

Undertaken an assessment of management’s expert
Reviewed and assessed the actuary’s roll forward approach taken,
Used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary

<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC view on GAD approach</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>2.25%</td><td>Acceptable – prudent estimate</td><td>●</td></tr>
<tr><td>Pension increase rate</td><td>2.0%</td><td>Within acceptable range</td><td>●</td></tr>
<tr><td>Salary growth</td><td>4.0%</td><td>Should be within 0.5% of prior year rate</td><td>●</td></tr>
<tr><td>Mortality – Longevity at 60 for future pensioners - Male</td><td>23.0 years</td><td>Reasonable assumption</td><td>●</td></tr>
<tr><td>Mortality – Longevity at 60 for future pensioners - Female</td><td>23.0 years</td><td>Reasonable assumption</td><td>●</td></tr>
</table>
We also reviewed

the completeness and accuracy of the underlying information used to determine the estimate
Impact of any changes to valuation method
Reasonableness of increase/decrease in estimate
Adequacy of disclosure of estimate in the financial statements

</td>
<td>●
Green</td>
</tr>
</table>

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- ● We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area

Local Government

Net pension liability – £42.2m

Summary of management's policy

The Authority's total WMPF net pension liability at 31 March 2020 was £42.2m (Prior Year £46.6m). The Authority uses Barnett Waddingham to provide actuarial valuations of the Authority's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy ,discount rates ,salary growth and investment return .Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.

Auditor commentary

We have

- Undertaken an assessment of management's expert
- Reviewed and assessed the actuary's roll forward approach taken,
- Used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.35%	2.35%	🟢
Pension increase rate	1.85%	1.85% - 1.95%	🟢
Salary growth	2.85%		🟢
Life expectancy – Males retiring in 20 years	23.8 years	22.5 – 24.7 years	🟢
Life expectancy – Females retiring in 20 years	26.0 years	25.9 – 27.7	🟢
Duration of liabilities	22 years	15-22 years	🟢

We also reviewed

- the completeness and accuracy of the underlying information used to determine the estimate
- Impact of any changes to valuation method
- Reasonableness of the Authority's share of LPS pension assets.
- Reasonableness of increase/decrease in estimate
- Adequacy of disclosure of estimate in the financial statements

Assessment

🟢

Green

Assessment

🔴 We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated

🟠 We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic

🟡 We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious

🟢 We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary	Auditor commentary
Management's assessment process Management has produced an initial assessment in relation to going concern as follows: • Medium term financial planning, including scenario testing and review of the adequacy and potential use of reserves • Maintained a forecast of cash receipts and planned borrowing to manage cash flow	The audit team is satisfied that management’s going concern assessment is appropriate and that appropriate cash management arrangements are in place.
Work performed We have • Reviewed other medium term financial planning documents to assess robustness of financial position.	In February 2020, the Authority produced a budget forecast to 2022/23. This outlined that a balanced budget could be achieved for 2021/22 and 2022/23 based on known funding assumptions. It also identified that there were a number of factors that could have a significant impact on the forecast position including future Government funding allocations to the Fire Sector, the introduction and impact of the Fair Funding Review and the treatment of firefighter pension related issues. The Treasurer’s overall assessment of the level of reserves was that the current level was “considered to be sufficient in all but the most unusual and serious combination of possible events.”
Concluding comments	Overall, our view is that the Authority has robust medium term planning processes. Clearly the pandemic has been a factor in both the Authority’s thinking going forward as well as the audit team’s work from a going concern and value for money perspective. However, the Authority’s income streams (predominantly local taxation) and activity levels are less susceptible to change as a result of the pandemic than, for example, a local council which may be more reliant on fees and charges income (such as car parking). We are also aware that a moderate amount of funding has been made available from central government to mitigate additional risks associated with the pandemic. We are therefore of the view that the going concern assertion is appropriate for the Authority.

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Risk Committee and have not been made aware of any material fraud issues during the year.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Authority, which is included in the Authority meeting papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to it banking and investment providers. This permission was granted and the requests were sent.
Disclosures	Our review found no material omissions in the financial statements. A small number of disclosure adjustments were made to the financial statements, the most important of which are outlined in Appendix A.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	Across the sector, we are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. However, in the case of the Authority, no work is required as the entity is below the audit threshold as determined by the NAO.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of West Midlands Fire and Rescue Authority in our audit report.

Value for Money

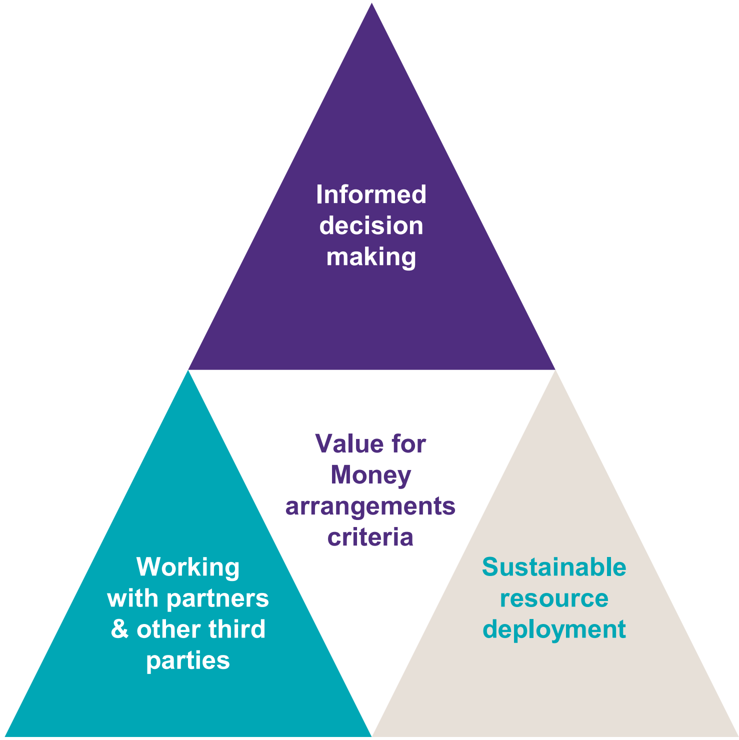
Background to our VFM approach

We are required to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Authority. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in March 2020, and update this to take into account the impact of the outbreak of the Covid 19 pandemic. We did not identified financial sustainability as a significant value for money risk. This was communicated to you in our Audit Plan.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We anticipate issuing an unqualified VfM opinion.

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.

As detailed at the previous slide we have assessed the Authority's arrangements under the criteria outlined by the NAO and have not identified any significant risks.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Authority had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for Money (continued)

Risk identified in our audit plan – Financial Sustainability

Given the financial uncertainty in future funding arrangements there is a residual VFM risk in respect of planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Our findings

2019/20 Out-turn

The Authority forecast that it would deliver a balanced position for 2019/20, broadly in line with its budget and this was achieved. The overall budgeted expenditure was £98.131 million and actual expenditure was £95.419 million . This included a planned use of balances totalling £4.334 million, of which £1.091 million came from General Fund un-earmarked balances and £3.243 million from General Fund earmarked reserve.

The Authority's General Fund reserves have reduced significantly over the last three years from £52.970 million at the 31 March 2017 to £35.960 million as at 31 March 2020. Un-earmarked General Fund balances have reduced from £9.236 million to £5.823 million over the three years and earmarked General Fund reserves from £43.734 million to £30.137 million .

Although the Treasurer is satisfied that there are currently sufficient General Fund balances, there is limited scope to reduce unearmarked balances further.

2020/21 Position

The Authority agreed a net revenue budget of £100.147 million for 2020/21. Due to the uncertainty about Government funding it had been assumed that 2020/21 funding would reduce by two percent. This did not happen, and the 2020/21 settlement was positive for the Authority resulting in core funding being £2.0 million higher than anticipated. The Authority has utilised this funding to:

- •reduce the scale of savings required from the ongoing flexible appliance availability process from a target saving of £3.8 million to £2.8 million;
- defer the use of £0.750 million General Balances to balance the 2020/21 budget to use in future years; and
- invest £0.250 million in digital services to enhance future operational capability.

The Treasurer's budget report made clear that this funding settlement was a one-year arrangement only and that there are continuing budget uncertainties, particularly related to Firefighter pension scheme costs.

From April 2019 the employer contribution rate on unfunded Firefighter pensions schemes increased from an average of 17.6 percent to 30.2 percent. The estimated cost to the Authority of this change was £6.2 million. This increase was largely funded in 2019/20 by Government grant totalling £5.7 million and it was confirmed that this grant would also be provided for 2020/21. Funding for this change beyond 2020/21 is uncertain.

There is also continuing uncertainty about the impact of the McCloud/Sargent Court of Appeal decision. Although the courts' decision is clear the Employment Tribunal has not yet determined the remedy. Due to the continued lack of clarity the Authority's 2020/21 budget does not include any contingency for additional costs arising from this.

The Authority's 2020/21 budget was agreed on the 17 February 2020 before the impact of the Covid19 pandemic. In common with all public sector bodies the Authority had additional demands and uncertainties to deal with. These included the impact of remote working and potentially higher levels of sickness absence. Fire Officers also volunteered for challenging roles supporting other front-line staff. Government has recognised the additional Covid19 related spending pressures on Fire and Rescue Authority's and has so far provided two tranches of funding. The Authority has so far received £2.79 million of Covid19 funding.

Value for Money (continued)

Our findings (continued)

Budget monitoring to the end of the first quarter of 2020/21 indicated that net expenditure is on track, with a net underspend against the profiled budget of £398,000. Delivery of this budget will maintain unearmarked General Fund balances at their current level of £5.8 million. There was a planned £10.1 million use of earmarked reserves during 2020/21 that would reduce the balance of earmarked reserves to £20.0 million by 31 March 2021. This was planned largely to support capital spending (£5.3m), digital and data projects (£1.9m) and prevention, preparedness and response projects (£1.1m). There is likely to be a reduction in expenditure due to the impact of the Covid19 pandemic.

Forward Look

The uncertainty about future funding has been increased by the impact of Covid19. Before the impact of the pandemic it was not clear when revised Business Rate Retention arrangements would be implemented or when the Fair Funding Review would be completed. This uncertainty continues and at the time of drafting the arrangements for the Authority's financial settlement for 2021/22 and beyond are not clear. Fair Funding Review implementation has been postponed until 1 April 2023.

The Chancellor of the Exchequer launched the latest Comprehensive Spending Review on the 21 July 2020. The review will set Government departments' budgets for the years 2021/22 to 2023/24 . This will help ensure that there is greater clarity about the overall funding available for public bodies including the Authority. It is not yet clear whether the total funding available to the Authority will change from 2021/22 and what impact funding reforms will have in future years.

This uncertainty, the potential for the Authority to face significant increases in its pension contribution costs and the continuing uncertainty about the financial impact of the Covid19 pandemic highlights the need for the Authority to carefully manage its General Fund balances. When the 2020/21 budget was agreed it included the assumed use £0.75 million of balances in 2022/23. This was based on the assumption that funding levels would remain at current levels for 2022/23. The use of earmarked reserves during 2020/21 will limit the scope to fund future projects from reserves. The need for savings and income generation to ensure the Authority maintains an adequate level of reserves needs to be kept under review .

Auditor Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We have implemented policies and procedures to meet the requirements of the Financial Reporting Council’s Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office’s Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on General Fund Balance £'000
Restatement of net pension liability following actuarial assessment of the impact of the McCloud/Sergeant remedy when clarification issued in July 2020.			
Other long term liabilities (net pension liability)		9,580 Dr	
Cost of services (gross expenditure)	9,580 Cr		
Overall impact	**£9,580 Cr**	**£9,580 Dr**	**£0**

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Note 18.1 Financial Instruments	Disclosures in the detail of the note were found to be incorrect and mis-analysed financial asset classification.	✓

Impact of unadjusted misstatements (including the prior period)

No unadjusted misstatements have been identified in the current or prior periods.

Fees

We confirm below our final fees charged for the audit.

Audit fees	Proposed fee	Final fee
Total audit fees (excluding VAT)	**£35,500**	**£35,500**

grantthornton.co.uk