

# The Audit Findings

## West Midlands Fire and Rescue Authority

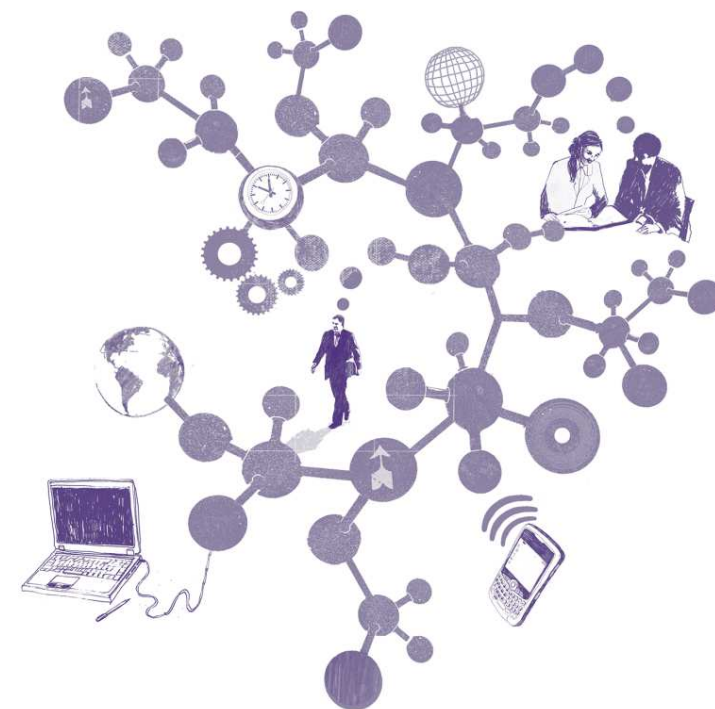
**Year ended 31 March 2015**

September 2015

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### **Audit Findings for West Midlands Fire and Rescue Authority for the year ending 31 March 2015**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of West Midlands Fire and Rescue Authority, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management prior to this meeting and will be presented to and discussed with the Audit Committee at their next meeting.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

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 primarily 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

James Cook

#### **Chartered Accountants**

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## Section 1: Executive summary

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of West Midlands Fire and Rescue Authority's (the Authority) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Authority's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated March 2015.

Our audit is substantially complete although we are finalising our work in the following areas:

- Confirming the accounting treatment for the Pension commutation issue as detailed on page 12.
- Obtaining and reviewing the signed management letter of representation and Annual Governance Statement.
- Updating our post balance sheet events review, up to and including the date of signing the opinion.
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable. This was ahead of the national timetable for preparing financial statements.

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements.

We have not identified any adjustments affecting the Authority's reported financial position. Both the draft and audited financial statements record Total Comprehensive Income and Expenditure as net expenditure of £104.198 million.

We did identify a relatively small number of disclosure errors, and requested some adjustments to improve the presentation of the financial statements. Those of note are detailed in section 2 of this report.

Further details are set out in section two of this report.

The other key messages arising from our audit of the Authority's financial statements are:

- The draft accounts and working papers were of an excellent quality.
- Finance staff responded promptly to all audit queries in all departments.

**Value for Money conclusion**

We are pleased to report that, based on our review of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section three of this report.

**Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

**Controls****Roles and responsibilities**

The Authority's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Authority.

**Findings**

Our work identified a number of control weaknesses which individually would not lead to material misstatement, but we considered were worth bringing to the attention of the Audit Committee. These fall into two main categories:

- IT weaknesses in relation to system access, and
- IT policies & procedures.

We have included an action plan and made recommendations where appropriate which have been agreed with the Strategic Enabler of Finance and Resources and his colleagues.

Further details are provided within section two of this report.

**The way forward**

Matters arising from the financial statements audit and review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Strategic Enabler of Finance and Resources.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Strategic Enabler of Finance and Resources and the finance team.

**Acknowledgment**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**September 2015**

## Section 2: Audit findings

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# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 23<sup>rd</sup> March 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 23<sup>rd</sup> March 2015 other than undertaking specific tests to review the accounting treatment of the payments for the smoke alarms and CO detectors. There are more details of this transaction on page 12.

## **Audit opinion**

Our proposed audit opinion is set out in Appendix B.



## Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<b>Improper revenue recognition</b> Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at West Midlands Fire and Rescue Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>•there is little incentive to manipulate revenue recognition</li> <li>•opportunities to manipulate revenue recognition are very limited</li> <li>•the culture and ethical frameworks of local authorities, including West Midlands Fire and Rescue Authority, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<b>Management override of controls</b> Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls	<ul style="list-style-type: none"> <li>• We have reviewed the journal control environment and not identified any significant control weaknesses.</li> <li>• We have tested key journal entries and not found any items which impacted on our opinion.</li> <li>• We have reviewed the accounting estimates, judgements and decisions made by management</li> <li>• We have reviewed any unusual, significant transactions and not identified anything which would impact on our opinion.</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• We have documented the processes and controls in place around the accounting for operating expenses</li> <li>• We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding</li> <li>• We have tested the completeness of the subsidiary system (purchase ledger) and how it interfaces with the ledger</li> <li>• We have documented the processes in place for month and year end accruals</li> <li>• We have performed cut off testing of purchase orders and goods received notes</li> <li>• We have reviewed a schedule of goods received that have not yet been invoiced and concluded that they are below materiality and do not present a risk to the financial statements.</li> <li>• We have performed testing of a sample of operating expenses to ensure they have been accurately accounted for and in the correct period</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified
<b>Fire Fighter Pension Benefit Payments</b>	Benefits improperly computed / claims liability understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• We have documented processes and controls in place around the accounting for Fire Fighters' Pensions.</li> <li>• We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding.</li> <li>• Agreement of pension disclosures in the financial statements to supporting evidence.</li> <li>• We have tested a sample of Fire Fighters' pension payments covering the period 1<sup>st</sup> April 2014 to 31 March 2015 to ensure that they have been accurately accounted for and in the correct period.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Employee remuneration</b>	Employee remuneration accrual understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• We have documented the processes and controls in place around the accounting for Employee Remuneration</li> <li>• We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding.</li> <li>• We have performed a review of monthly trend analysis of payments to identify and investigate any usual or irregular movements</li> <li>• We have reviewed the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and the financial statements.</li> <li>• We have performed substantive testing of employees for accuracy of payment and the agreement of employment remuneration disclosures to supporting documentation.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

# Significant matters discussed with management

	Significant matter	Commentary
1.	<p><b>Accounting for the purchase of Smoke Alarms and CO Detectors supplied to each Fire Authority within England</b></p> <p>Legislation was passed on 11 March 2015 relating to a requirement for all private landlords to fit smoke alarms at every floor within rented properties and carbon monoxide detectors in high risk rooms. This will come into effect from 1 October 2015.</p> <p>To support this, DCLG has provided a grant under section 31 of the Local Government Act which will be channelled through West Midlands FRA and Devon and Somerset FRA (£2.945m £240k respectively) to purchase alarms and detectors which will then be distributed to all FRA as per the agreed allocation.</p>	<p>The Authority accounted for the transaction on an agency basis under IAS18. IAS18 states that "<i>in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission.</i>"</p> <p>In effect this means that whilst the transactions were received and made in full by the Authority to purchase the alarms and detectors, they would only show their element of the alarms and detectors within their financial statements. We have confirmed that the specific criteria set out in IAS18 to enable this accounting treatment have been met. Furthermore, we have confirmed that the financial statements and relating transactions also comply with the Code.</p>
2.	<p><b>Accounting for the Pension Ombudsman's decision – Government Actuary's Department commutation factors</b></p> <p>The Pension Ombudsman determined in July 2015 that the calculation of pensioners' lump sum amounts on commutation since 1998 was not based on the right actuarial data. The Government Actuary's Department has issued guidance in respect of the Firefighters' Pension Scheme (England): 1992 Scheme. This will enable each Fire Authority to calculate the impact for their 2014/15 accounts.</p> <p>This decision was made after the Authority had prepared its draft financial statements.</p>	<p>This constitutes a post balance sheet event and Grant Thornton is currently in discussions with the NAO and with other audit firms on the most appropriate accounting disclosures. This could also affect the disclosures for provisions, pensions top up grant and contingent liabilities.</p> <p>We will provide the authority with a verbal update at the meeting on 21 September 2015.</p>

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Authority's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<p>The Authority's policy is set out in its accounting policies:</p> <ul style="list-style-type: none"> <li>• Accounting Policy 2 – Accruals of Income and Expenditure,</li> <li>• Accounting Policy 9 – Government Grants and Contributions, and</li> <li>• Accounting Policy 14 – Provisions and Contingent Liabilities</li> </ul>	<ul style="list-style-type: none"> <li>• The Authority's policy is appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice</li> <li>• Minimal judgement is involved</li> <li>• The accounting policy is appropriately disclosed</li> </ul>	 <b>Green</b>
<b>Estimates and judgements</b>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>• Useful lives and £nil residual value of property, plant and equipment,</li> <li>• Property valuations including revaluations, impairments and fair valuations,</li> <li>• Government Funding and the high degree of uncertainty,</li> <li>• Insurance – the Authority operates a self insure scheme with Sandwell MBC,</li> <li>• Pension fund valuations and settlements, and</li> <li>• Provisions.</li> </ul>	<p>We have not identified any issues in relation to accounting estimates and judgements which we wish to bring to your attention.</p>	 <b>Green</b>



## Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate and disclosures sufficient

● Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Going concern</b>	The Brigade Managers have a reasonable expectation that the services provided by the Authority will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Brigade Managers' assessment and are satisfied that the going concern basis is appropriate for the 2014/15 financial statements.	 <b>Green</b>
<b>Other accounting policies</b>	We have reviewed the Authority's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	 <b>Green</b>

## Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate and disclosures sufficient

● Accounting policy appropriate but scope for improved disclosure

# Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.



	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee and been made aware of one immaterial instance of fraud. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Authority.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our audit work identified no material omissions in the financial statements. Minor omissions were identified which the Authority has addressed by enhancing existing disclosures to more accurately reflect the nature of the Authority's business in 2014/15.</li> <li>The Authority has written off the £143k loan to WMFS Business Safety Ltd which was made dormant in 2014/15. This is not material and the Authority has decided not to disclose this value due to commercial sensitivity.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>
6.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmations from the Authority's bank, and from PWLB for loans.</li> </ul>

# Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A. All recommendations were initially raised in 2013/14 and have been re-raised where progress has not been fully completed.

	Assessment	Issue and risk	Recommendations
1.	 <b>Amber</b>	<b>Weak password access controls for the Active Directory</b> <p>There is no requirement for users to periodically change their password used to log on to the corporate network. There is also no limit on the number of failed attempts that a user may have at entering their password. Both of these are significant weaknesses in access controls.</p> <p>Without adequate password access controls in place there is an increased risk of unauthorised access being gained to information assets.</p>	<p>We recommended that the Authority comply with recognised best practice:</p> <ul style="list-style-type: none"> <li>•the 'maximum password age' value within Active Directory to between 30-60 days</li> <li>•the 'account lockout threshold' is set to between 3-5 attempts.</li> </ul>
2.	 <b>Amber</b>	<b>No Change Management Procedures</b> <p>There is no documented Change Management Policy in place for IT system changes and no documented evidence of the controls implemented for the changes that have taken place on the network and applications during the year. This was also raised as a finding in 2013/14</p> <p>The lack of documented change management procedures for staff to adhere to could result in changes not being effectively administered on the corporate network causing system down-time or service disruption.</p>	<p>IT should implement and maintain formal procedures for the change management process which will describe how they will deal with both minor and major changes and ensure traceability is maintained throughout.</p>



The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

## Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement



## Internal controls (continued)

	Assessment	Issue and risk	Recommendations
3.	 <b>Amber</b>	<p><b>Excessive number of domain administrators</b></p> <p>There were 21 users who are members of the powerful 'domain administrators' Active Directory group. Users in this group have the ability to perform a wide range of system functions. This is seen as an abnormally high in relation to the number of users.</p> <p>There is a risk that individuals could override system controls, either deliberately or by accident. In addition information assets within the organisation may not be adequately secured against unauthorised or inappropriate access.</p>	<p>Membership of the domain administrators group should be regularly reviewed and restricted to only those trained staff with a requirement to have this level of privilege.</p> <p>Work is on-going to reduce the number of users with domain administration access to the system.</p>
4	 <b>Amber</b>	<p><b>Lack of formal review for Information Security policies and procedures</b></p> <p>At time of review, the existing IT security policy had not been formally reviewed or updated since its establishment in September 2010. Lack of controls create the following risks:</p> <ul style="list-style-type: none"> <li>a) Security administration processes and control requirements may not be formalized, understood by, or communicated to those within the organization responsible for observing and/or implementing them</li> <li>b) Effectiveness of security administration processes and controls may be diminished due to environmental and/or operational changes</li> <li>c) Information security processes, requirements and controls may be inconsistently defined, understood and implemented throughout the organization.</li> <li>d) The lack of formal (documented) information security requirements may make sanctioning employees for inappropriate use of information resources more difficult. For example, a user who caught sharing personal passwords with other employees may be able to claim ignorance of any wrongdoing as this action did not violate any organizational policy documents.</li> </ul>	<p>Information security policies and procedures should be reviewed at planned intervals or when significant changes occur to ensure their continuing suitability, adequacy, and effectiveness.</p>

# Internal controls – review of issues raised in prior year

The recommendations raised in the prior year which have been fully implemented are detailed below.

	Appropriate arrangements now in place	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<p><b>Weak password access controls for Oracle EBS</b></p> <p>Our review of the password parameters governing access to the Oracle EBS system shows several weaknesses including:</p> <ul style="list-style-type: none"> <li>•passwords are not required to be a mixture of upper and lower case letters and numeric values</li> <li>•minimum length of a password is only six characters</li> <li>•passwords are not required to be changed on a regular basis, for example, 60 days.</li> </ul> <p>Without adequate logical access controls in place there is an increased risk of unauthorised access being gained to information assets.</p>	<ul style="list-style-type: none"> <li>• Password controls have been significantly improved; there is a requirement for password complexity, prompting to change password on a regular basis and also users are not able to re-use their passwords for a set period.</li> </ul>
2.	✓	<p><b>Incorrect parameters resulting in insufficient contributions initially made to the pension scheme</b></p> <p>All employees enrolled on the new 2006 pension scheme whose pension contributions fell at either 9.1% or 9.6% have been incorrectly recorded on the Oracle payroll system between April 2013 and December 2013. The parameters loaded onto Oracle were incorrect. This error was identified by the Authority in December 2013 and the outstanding contributions are being collected from February 2014 over an 8 month period.</p> <p>The authority had identified this issue prior to our interim audit and had implemented measures to correct the mistake. Additional testing has been performed at the final accounts audit and we are satisfied that appropriate action has been taken to rectify the error.</p>	<ul style="list-style-type: none"> <li>• No recommendation raised in the prior year as the Authority had already put appropriate controls in place. These have been assessed as in place as no similar issue has arisen in 2014/15.</li> </ul>
3.	✓	<p><b>Incorrect parameters resulting in insufficient contributions initially made to the pension scheme</b></p> <p>When a firefighter is temporarily promoted, the salary difference is pensionable at a higher rate of 26.5%. Due to an incorrect parameter being entered into the system, the new Firefighter pension scheme rate of 21.3% was charged instead.</p> <p>The Authority is happy to amend the disclosures in the Officers' remuneration note and the required additional payments are being reclaimed.</p>	<ul style="list-style-type: none"> <li>• No recommendation raised in the prior year as the Authority had already put appropriate controls in place. These have been assessed as in place as no similar issue has arisen in 2014/15.</li> </ul>

## Adjusted and unadjusted misstatements

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

There were no adjustments identified during the audit

## Misclassifications & 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.

Adjustment type		Value £'000	Account balance	Impact on the financial statements
1	Disclosure	2,749,271	Note 10 Inventory	Note 10 will no longer show the transaction relating to smoke alarms as movement in the general stores inventory movement as the Authority is acting as an agent.
2	Disclosure	102,000	Note 19 Officers' Remuneration	The exit package of £102,000 disclosed in column (e) under the banding of £80,001 - £100,000 will be moved to the banding £100,001 - £150,000.
3	Disclosure	N/A	All	Minor presentational corrections.

## Section 3: Value for Money

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# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Authority's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

**The Authority has proper arrangements in place for securing financial resilience** - the Authority has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Authority has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Authority's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Overall our work highlighted that the Authority is financially resilient, having a strong balance sheet, good levels of reserves and is developing arrangements to deliver savings to meet funding gaps going forward.

### Challenging economy, efficiency and effectiveness

We have considered the Authority's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that resources are currently utilised appropriately to deliver value for money, but the Strategic Enabling Team is aware that the future of Fire Authorities and the services they will deliver is uncertain. Work is on-going to ensure that the Authority is well placed to respond with agility to these changes to sustain the overall objective of the Authority in relation to 5 minute response times.

## Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

We set out below our detailed findings against six risk areas which have been used to assess the Authority's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Risk area	Summary observations	High level risk assessment
<b>Key Indicators of Financial Performance</b>	The General Fund stands at £9,231k at the 31 March 2015. Whilst this is an increase on the opening balance the Authority has made appropriate movements to earmarked reserves as well to cover financial liabilities and risks going forward. The General Fund balance is in line with the financial strategy. Reserves are at a generally high level and are not used to subsidise the day to day transactions of the Authority.	<b>Green</b>
<b>Strategic Financial Planning</b>	The authority continues to use a 3 year corporate plan as a basis for planning and delivering objectives. This plan links the three objectives of prevention, protection and response. Review of this plan confirms that the Authority's overall priority is to maintain response times to 999 calls at 5 minutes. All other parts of the strategy support this whilst also linking to the prevention and protection elements, making the 5 minute response time the 'golden thread' which drives all strategic priorities.	<b>Green</b>
<b>Financial Governance</b>	The Authority has demonstrated a drive and commitment to making changes in response to the recent reductions in Government funding. There is an understanding of the current financial position of the Authority and finance is a continuing thread evidenced through all elements of the corporate plan.	<b>Green</b>
<b>Financial Control</b>	The Authority is cash rich and delivers a balanced budget each year. Ear marked reserves are used where cash has been held back for projects put on hold whilst decisions on the wider delivery of the service are made.	<b>Green</b>
<b>Prioritising Resources</b>	The Corporate Plan determines the overall use of resources within the Authority, outlining the strategic direction for the Authority over a 3 year period. This includes the Key Priorities, Outcomes and Strategic Objectives. Staff interviewed considered that there has been a tangible shift in the culture of the Authority in the past few years.	<b>Green</b>
<b>Improving Efficiency &amp; Productivity</b>	The overall strategy is clear and the decisions which are being made are consistent with it. Some service redesign has already been delivered successfully and the Authority has learned from this experience. There is considerable uncertainty surrounding the future service delivery of the Fire Service, both in the West Midlands, Regionally and Nationally.	<b>Green</b>
<b>Partnership working</b>	Specifically identified as a risk for the Authority and overarching all areas of the Audit Commission's risk areas, we have reported separately. Whilst arrangements are developing in this area, the present arrangements do not present a risk to the Authority at this stage.	<b>Green</b>

## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters



# Fees, non-audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

## Fees services

	Per Audit plan £	Actual fees £
Authority audit	51,515	51,515
<b>Total audit fees</b>	<b>51,515</b>	<b>51,515</b>

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

## Fees for other services

Service	Fees £
<b>Audit related services</b>	Nil
<b>Non audit related services</b>	Nil

## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Authority's key risks when reaching our conclusions under the Code.

It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

## Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<b>IT access controls</b> Review the password settings for the network, system change management controls and the number of 'domain administrators' with significant access, with a view to implementing best practice requirements.	M	Agreed	January 2016 Strategic Enabler of Information & Communications Technology
2	<b>IT policies and procedures</b> Information security policies and procedures should be reviewed at planned intervals or when significant changes occur to ensure their continuing suitability, adequacy, and effectiveness.	M	Agreed	November 2015 Strategic Enabler of Information & Communications Technology

# Appendix B: Audit opinion

**We anticipate we will provide the Authority with an unmodified audit report**

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST MIDLANDS FIRE AND RESCUE AUTHORITY

We have audited the financial statements of West Midlands Fire and Rescue Authority for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of West Midlands Fire and Rescue Authority, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Strategic Enabler of Finance and Resources and auditor

As explained more fully in the Statement of the Strategic Enabler of Finance and Resources' Responsibilities, the Strategic Enabler of Finance and Resources is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently

applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Enabler of Finance and Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of West Midlands Fire and Rescue Authority as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

### Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we report by exception

We are required to report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

## Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

### Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, West Midlands Fire and Rescue Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

## Certificate

We certify that we have completed the audit of the financial statements of West Midlands Fire and Rescue Authority in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

James Cook, Director

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza  
20 Colmore Circus  
Birmingham  
B4 6AT

?? September 2015



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