

Audit Committee Update for West Midlands Fire & Rescue Authority

Progress Report and Update Year ended 31 March 2016

March 2016

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Introduction

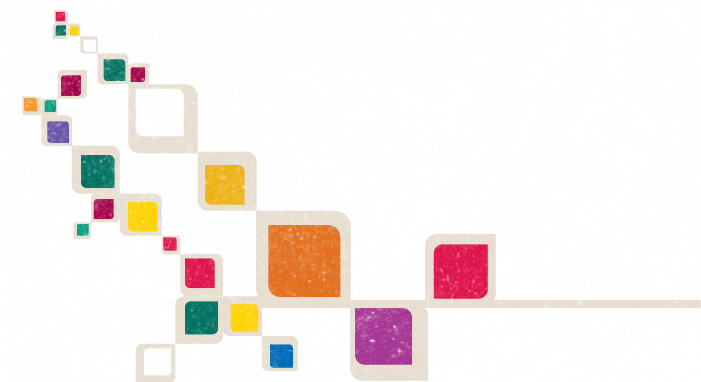
This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

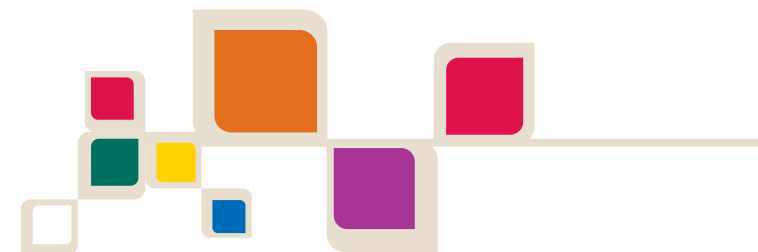
- Innovation in public financial management (December 2015); www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/
- Knowing the Ropes – Audit Committee; Effectiveness Review (October 2015); www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/
- Making devolution work: A practical guide for local leaders (October 2015) www.grantthornton.co.uk/en/insights/making-devolution-work/

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

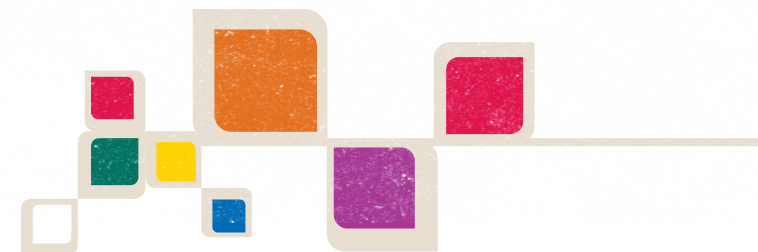


Progress to date



| 2015/16 work | Planned Date | Complete? | Comments |
|--|-----------------------|-------------|---|
| Fee Letter | | | |
| We are required to issue a 'Planned fee letter for 2015/16' by the end of April 2015. | April 2015 | Yes | The 2015/16 fee letter was issued in April 2015 |
| Accounts Audit Plan | | | |
| We are required to issue a detailed accounts audit plan to the Fire Authority setting out our proposed approach in order to give an opinion on the Fire Authority's 2015/16 financial statements. | March 2016 | Yes | <p>We continue to assess the risks facing your Authority and meet with Senior Officers to ensure that these risks are fully understood and our audit work is appropriate.</p> <p>If there are any changes to our plan between our initial risk assessment and the delivery of our opinion we will discuss this with the Strategic Enabler for Finance and Resources before presenting to the Audit Committee.</p> |
| Interim accounts audit | | | |
| <p>Our interim fieldwork visits include:</p> <ul style="list-style-type: none"> • updating our review of the Fire Authority's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. | January – March 2016 | Yes | <p>We will:</p> <ul style="list-style-type: none"> • engage with the finance team to streamline and improve the audit approach for 2015/16 where possible • Discuss any technical issues early, including the impact from the pension commutation guidance • Undertake as much early testing as possible. <p>We will continue to work closely with Internal Audit in relation to risk, work on the financial statements and fraud.</p> |
| Final accounts audit | | | |
| <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2015/16 financial statements • proposed opinion on the Fire Authority's accounts • proposed Value for Money conclusion. | June – September 2016 | Not started | We will undertake work on your draft financial statements to provide an opinion by the statutory deadline. We are planning to complete our audit by 31 st August. as part of the transition to the earlier closedown and audit cycle from 2017. |

Progress to date



| 2015/16 work | Planned Date | Complete? | Comments |
|---|-------------------|-------------|---|
| Value for Money (VfM) conclusion | | | |
| <p>The scope of our work to inform the 2015/16 VfM Conclusion requires conclusions on whether:</p> <p><i>"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</i></p> <p>This change of guidance was issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties | March – July 2016 | In progress | <p>We have considered the potential significant risks for our VfM conclusion and identified the following issues.</p> <ul style="list-style-type: none"> • Financial resilience • Working with partners and other third parties <p>Our work on the VfM Conclusion will include attending meeting with key Senior Officers and key document reviews. We are aiming to deliver this work ahead of the national timescales as a move towards the faster close from 2017.</p> |
| Annual Audit Letter | | | |
| We will summarise all the work completed as part of our 2015/16 audit within one letter which will be issued after the opinion. | October 2016 | Not started | |
| Engagement with the Fire Authority since the last Audit Committee meeting | | | |
| | On-going | On-going | <ul style="list-style-type: none"> • Meetings with key Senior Officers to discuss the audit planning and significant risks facing the Fire Authority • Agreement of the pensions work to support staff ahead of the forthcoming pension changes in April 2016 • Delivery of Grant Thornton publications and training material to Audit Committee members as requested |

Fire Sector Accounting and other issues



Machinery of Government Change

– Fire and Rescue Policy transfer to Home Office

The Government is committed to closer collaboration between the police and fire and rescue services. The Home Office and Department for Communities and Local Government have been working closely together in support of this commitment. A consultation on Emergency Service Collaboration was published on 11 September and closed on 23 October 2015.

This Government is clear that greater joint working between the emergency services can deliver better local accountability, an improved service for communities and significant savings for taxpayers. Similarly the Government believes that central policy making, as well as local delivery, can benefit from a more joined up approach and that this can be best achieved by transferring responsibility for fire and rescue policy from the Department for Communities and Local Government to the Home Office.

The Government confirmed that responsibility for Fire and Rescue Policy for England will transfer from the Department for Communities and Local Government to the Home Office.

- Ministerial responsibility for Fire transferred from 5 January 2016 to Mike Penning, Minister of State at the Home Office and Minister of State at the Ministry of Justice.
- As of 1 April 2016 the group of staff working on the national fire policy function will transfer to the Home Office. This group comprises Fire Policy Division, National Resilience and Fire Programmes Division, the Chief Fire and Rescue Advisor's team and staff working on Firefighter Pensions.
- Melanie Dawes, the DCLG Permanent Secretary will remain Accounting Officer for fire budgets until 1 April when Mark Sedwill, Permanent Secretary at the Home Office, will take over this role.

Challenge questions

Are members aware of the implications of this legislative change and is this being reflected in the strategic and financial plans they are seeing?

Provisional Local Government Finance Settlement – Fire and Rescue Services

On 17 December the Government announced the provisional local government finance settlement.

Key points in provisional settlement:

- Single-purpose fire and rescue authorities (outside London) will receive £1.38 billion of core spending power under the 2016-17 settlement.
- The reduction in core spending power for single purpose fire and rescue authorities will be 1.7 per cent in 2016-17, with an overall reduction of 2.0 per cent from 2015-16 to 2019-20.
- The Government continues to fund existing national resilience capabilities (for example, specialist urban search and rescue capability; high volume pumps; mass decontamination equipment; detection, identification and monitoring equipment for chemical, biological and nuclear incidents; and a national mobilisation co-ordination function.) Around £20 million will be provided to the fire and rescue sector in 2016-17.
- We will allow fire and rescue authorities to spend 100% of their fixed asset receipts on the revenue costs of reform projects. This will support fire and rescue authorities seeking to collaborate more widely with other blue light emergency services, such as merging back office functions.
- We will bring forward legislation to enable Police and Crime Commissioners to take on responsibility for fire and rescue services, subject to local support and introduce a new statutory duty for the emergency services to collaborate by early 2017, subject to parliamentary approval, on areas such as procurement, new stations and vehicle maintenance.

Challenge questions

Do members understand the financial impact of the Local Government Finance Settlement on their Authority's delivery of services going forward?

Supporting Public Service Transformation

Many fire and rescue authorities are considering how to transform or redesign their fire prevention and community safety services in a way that improves value for money for the taxpayer and makes best use of the latent capacity of their staff. Increasingly, this involves fire and rescue services supporting and delivering against the objectives of other public service providers, such as local authorities, the police and ambulance service and public and national health organisations, as well as range of voluntary and community based organisations.

Effective evaluation offers important insights into why some approaches are more successful than others and into how to deliver better services within constrained budgets. It provides decision makers – both in fire and rescue authorities and in their partner organisations – with the evidence they need to support new ways of service provision and to make the best possible case for securing the resources needed to deliver them.

The Public Transformation Network champions a 'whole place', multi-agency approach to public service reform. It helps local public sector partners remodel services so they are designed around the needs of people, not the needs of organisations. It has produced an introductory guide to evaluation which community safety practitioners and analysts in fire and rescue services may find helpful.

The guide is complemented by the Network's guidance on Cost Benefit Analysis for Local Partnerships which can be found at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/300214/cost_benefit_analysis_guidance_for_local_partnerships.pdf

The Network's evaluation guide sets out some guiding principles and key considerations to help local providers measure the impact of changes to services. It aims to help local providers to ensure the highest quality, credibility and accountability for services that have been redesigned and enable multi-agency partnerships delivering new services to demonstrate value for money and how redesigned services make a real difference to local communities. The guide can be found at: <http://publicservicetransformation.org/images/articles/learning-zone/evaluation-analysis/EvaluationGuideFinalv2.0.pdf>

The Network's website also hosts a number of webinars and useful resources on evaluation and other elements of public service reform, such as collaborative leadership and commissioning. Link to the website: www.publicservicetransformation.org

Publication of Draft Investigatory Powers Bill

The Government has published a draft Investigatory Powers Bill which contains changes to the purposes for which fire and rescue services can acquire communications data.

In the draft Investigatory Powers Bill published on 4 November 2015, the Government plans to restrict the power of fire and rescue services to acquire communications data to only 'threat to life' situations. Currently, under RIPA powers, fire and rescue authorities can acquire communications data for three purposes:

1. for the purpose of preventing or detecting crime or of preventing disorder;
2. in the interests of public safety; and,
3. for the purpose, in an emergency, of preventing death or injury or any damage to a person's physical or mental health, or of mitigating any injury or damage to a person's physical or mental health.

However, data from the Home Office and from information collected from fire and rescue authorities in 2013 and more recently from Chief Fire Officers by the Department for Communities and Local Government, shows low use of these powers over the last five years. On this basis it is intended to limit fire and rescue authorities' investigatory powers to those described in 3 (above). Where fire and rescue authorities identify the need for data in respect of purposes 1 and 2 above, it is expected that fire and rescue services will work closely with the police to acquire such data.

The new Bill continues to allow a "first hour" exemption (the 'golden hour') for investigation of 999 calls typically used to seek information on hoax callers.

Challenge questions

Have members questioned officers on whether data handling procedures reflect the recent changes?

Grant Thornton Publications



Reforging local government: Summary findings of financial health checks and governance reviews

The recent autumn statement represents the biggest change in local government finance in 35 years. The Chancellor announced that in 2019/20 councils will spend the same in cash terms as they do today and that "better financial management and further efficiency" will be required to achieve the projected 29% savings. Based on our latest review of financial resilience at English local authorities, this presents a serious challenge to many councils that have already become lean.



Our report is available at <http://www.grantthornton.co.uk/en/insights/reforging-local-government/>, or in hard copy from your Engagement Lead or Engagement Manager.

Our research suggests that:

- the majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services
- most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk
- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
- local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos
- elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk
- councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.

CFO Insights – driving performance improvement

CFO insights is an online analysis tool that gives those aspiring to improve the financial position of their local authority instant access to insight on the financial performance, socio- economy context and service outcomes of every council in England, Scotland and Wales.

The tool provides a three-dimensional lens through which to understand council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours. CFO Insights is an invaluable tool providing focused insight to develop, and the evidence to support, financial decisions.



We are happy to organise a demonstration of the tool if you want to know more.

Innovation in public financial management

In December 2015 we issued a report, which drew on a survey of almost 300 practitioners worldwide, also includes insights from experts at the International Consortium on Governmental Financial Management (ICGFM) and the Massachusetts Institute of Technology's Centre for Finance and Policy.

The report is the latest in a decade-long series jointly published by Grant Thornton and the ICGFM and it covers four major topics that, globally, will impact on the future of public financial management:

Changing practices. Our research showed that the biggest issue ahead will be finding the political commitment to support more difficult innovations on the agenda – such as increasing public engagement.

The right PPP formula. 90% of respondents felt that substantial investment in infrastructure was required to drive economic growth. In this age of austerity, most governments are also seeking ways to attract outside investment – with the majority using some form of public-private partnership (PPP). Many countries remain inexperienced with such arrangements and the results of their application have been mixed. There has been little improvement since our 2011 survey,

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which shows that it takes a long time to develop the requisite skills and experience to make PPPs work.

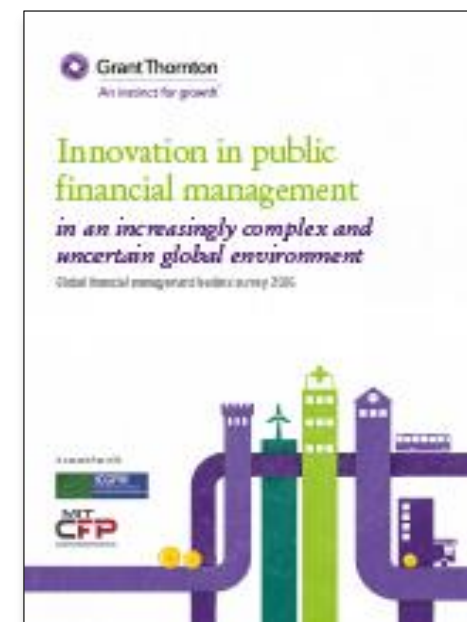
Transparency with technology. Public financial managers are convinced of the importance of enhancing transparency and most are trying to be innovative in this area. However, most are using outdated digital tools. Fewer than half use social media to enhance openness. Even among the best, most transparency efforts are focussed on releasing data sets than data insights.

The new normal. Public financial management remains weighed down by the effects of the global financial crisis, but respondents also focussed on important developments since 2008, such as the Eurozone problems and the collapse of commodity prices. This suggests that public financial management is having to come to terms with not just the lessons one major financial crisis, but with how governments can live with less over the long term.

Our report, Innovation in public financial management, can be downloaded from our website:

<http://www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/>

Grant Thornton reports



2016 Transparency Report

Grant Thornton's commitment to quality underpins all that we do and this is reflected in our 2016 Transparency Report.

We have more than 42,000 people in over 130 countries and this report is a public statement of our commitment to provide high-quality services to businesses and organisations operating throughout the world.

It is designed to help clients, audit committees, regulators and the public, who make up our many stakeholders, understand us better.

The report covers the three key aspects of our business, namely:

- Audit and assurance;
- Taxation; and
- Advisory services.

The report provides information on our audit methodology and sets out how we monitor the quality of our work and engage with external regulators.

It also covers our arrangements for governance and management and sets out our most recent financial information.

The report can be downloaded from our website:

www.grantthornton.global/globalassets/1.-member-firms/global/grant-thornton-global-transparency-report-2016.pdf

Alternatively, hard copies can be provided by your Engagement Lead or Audit Manager.

Grant Thornton reports





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