

The Audit Findings

West Midlands Fire & Rescue Authority

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

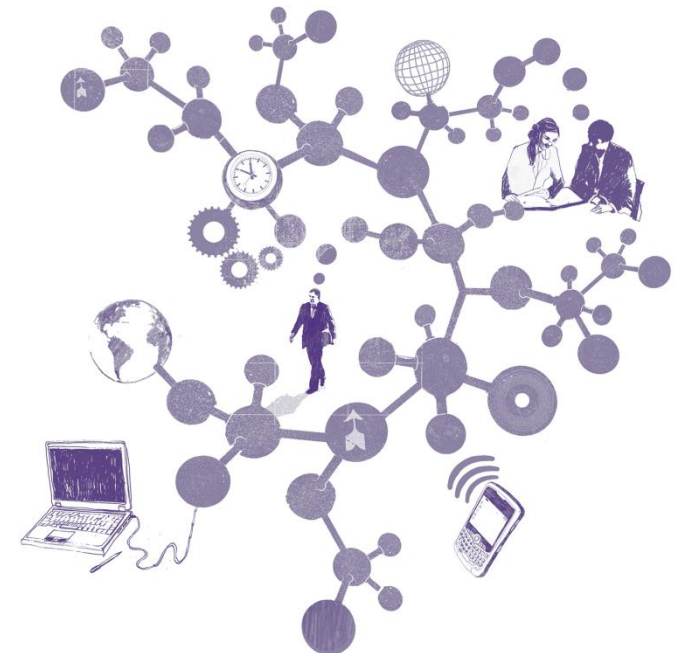
Year ended 31 March 2016

July 2016

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Audit Findings for West Midlands Fire and Rescue Authority for the year ending 31 March 2016

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 on 25th July 2016.

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

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Section 1: Executive summary

01. Executive summary

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Purpose of this report

This report highlights the key issues affecting the results of West Midlands Fire & Rescue Authority's ('the Authority') financial statements for the year ended 31 March 2016. 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 (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under 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 whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Authority or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Authority and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 11th April 2016.

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

- Clearance of final audit queries in relation to sales ledger invoice arrangements
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of final signed Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion, and
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Authority's reported financial position (details are recorded in section two of this report).

The draft financial statements for the year ended 31 March 2016 recorded net expenditure of (£186,512k). This is in effect a surplus, mainly due to adjustments from the valuation of the pension liability which have been made in year. The deficit on the provision of services was £60,617k (£67,217k in 2014/15), which was broadly in line with the budget.

We also identified 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 two of this report.

The 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.
- The audit has been delivered in a shorter timescale with an opinion being issued in July 2016. In previous years we have issued our opinion in September. This places the Authority in a strong position to meet the reduced timescales for delivery of the audit which will impact in 2017/18.

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

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- 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 information of which we are aware from our audit.

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 has not identified any control weaknesses which we wish to highlight for your attention.

A summary of our follow up of the control issues identified in 2014/15 is included in Appendix C. These issues have all been cleared.

Value for Money

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.

Other statutory powers and duties

There are no other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

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.

Acknowledgement

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
July 2016

Section 2: *Audit findings*

01. Executive summary

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £2,368k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and (have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £118,400. This remains the same as reported in our audit plan .

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Authority affect the balance and it is therefore considered to be material by nature.	Any errors identified by testing in excess of triviality would be deemed to have implications on the users understanding of the financial statements
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing in excess of £10,000 would be deemed to have implications on the users understanding of the financial statements
Related party transactions	Related party transactions have to be disclosed if they are material to the fire authority or to the related party	Any errors identified by testing will be assessed individually, with due regard given to the nature of the error and its potential impact on users of the financial statements. We are unable to quantify a materiality level as the concept of related party transactions takes in to account what is material to both the Authority and the related party.

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.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<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"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • 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. 	<p>Our audit work has not identified any issues in respect of revenue recognition within the financial statements.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> • We have reviewed the journal control environment and not identified any significant control weaknesses. • We have tested key journal entries and not found any items which impacted on our opinion. • We have reviewed the accounting estimates, judgements and decisions made by management • We have reviewed any unusual, significant transactions and not identified anything which would impact on our opinion. 	<p>Our audit work has not identified any evidence of management over-ride 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 judgements.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Pensions commutation liability The Authority processed a material payment in the year in relation to pensions commutation liabilities that arose as a result of the GAD Vs. Milne case. Under ISA 315, this is a significant non-routine transaction.</p>	<ul style="list-style-type: none"> Reviewed prior year provision in comparison with the actual payment made to pensioners Agreed payments made to pensioners or the estate of deceased former scheme members Agreed receipt of the top-up grant receivable from DCLG to meet the liability Reviewed disclosure requirements are appropriate. 	Our audit work has not identified any issues in respect of the pensions commutation liability.

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
<p>Operating expenses</p>	<p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have documented the processes and controls in place around the accounting for operating expenses • We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding • We have tested the completeness of the subsidiary system (purchase ledger) and how it interfaces with the ledger • We have documented the processes in place for month and year end accruals • We have performed cut off testing of purchase orders and goods received notes • 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. • We have performed testing of a sample of operating expenses to ensure they have been accurately accounted for and in the correct period 	<p>Our audit work has not identified any significant issues in relation to the risk identified/</p>

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> We have documented the processes and controls in place around the accounting for Employee Remuneration We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding. We have performed a review of monthly trend analysis of payments to identify and investigate any usual or irregular movements We have reviewed the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and the financial statements. We have performed substantive testing of employees for accuracy of payment and the agreement of employment remuneration disclosures to supporting documentation. 	Our audit work has not identified any further significant issues in relation to the risk identified.
Firefighters Pensions Benefit Payments	<p>Benefits improperly computed/ claims liability understated</p> <p>Payments to retiring officers are low in volume but high in value and the service is reliant on effective controls both within and outside the organisation to ensure that payments made are valid and accurate.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> We have documented processes and controls in place around the accounting for Fire Fighters' Pensions. We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding. We have agreed pension disclosures in the financial statements to supporting evidence. We have tested a sample of Fire Fighters' pension payments covering the period 1st April 2015 to 31 March 2016 to ensure that they have been accurately accounted for and in the correct period. 	Our audit work has not identified any significant issues in relation to the risk identified

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>The Authority's policy is set out in its accounting policies:</p> <ul style="list-style-type: none"> Accounting Policy 2 – Accruals of Income and Expenditure, Accounting Policy 9 – Government Grants and Contributions, and Accounting Policy 14 – Provisions and Contingent Liabilities 	<ul style="list-style-type: none"> The Authority's policy is appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice Minimal judgement is involved The accounting policy is appropriately disclosed 	 GREEN
Estimates and judgements	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> Useful lives and £nil residual value of property, plant and equipment, Property valuations including revaluations, impairments and fair valuations, Government Funding and the high degree of uncertainty, Insurance – the Authority operates a self insure scheme with Sandwell MBC, Pension fund valuations and settlements, and Provisions. 	<p>We have not identified any issues in relation to accounting estimates and judgements which we wish to bring to your attention.</p>	 GREEN
Going concern	<p>The Strategic Enabling Team has 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.</p>	<p>We have reviewed the Strategic Enabling Team's assessment and are satisfied that the going concern basis is appropriate for the 2015/16 financial statements.</p>	 GREEN
Other accounting policies	<p>We have reviewed the Authority's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</p>	 GREEN

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

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	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee. 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.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Authority
5.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
6.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from the Authority's bank, and from PWLB for loans.
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following 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 information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Authority acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<ul style="list-style-type: none"> 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. This work is only requires the minimum tests as the Authority does not exceed the threshold.

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 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. The disclosure requirements for Financial Instruments were changed for 2015/16 as the public sector Code of Audit Practice adopted IFRS13 which sets out the disclosures required.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	N/A	Note 9 Financial Instruments	Per guidance in CIPFA LAAP bulletin 104, the fair value of PWLB loans as provided by the PWLB is no longer an acceptable calculation under the provisions of IFRS13. This is because the redemption rate used to discount the loans to present value is specific to the fire authority and no market participants. Therefore, the present value should be re-calculated based on an equivalent loan with the PWLB at the balance sheet date.
2 Disclosure	various	Note 9 Financial Instruments	The Fire Authority have omitted the fair value hierarchy from the financial instruments disclosure. This should show consideration for the methodology used in calculating the fair value of loans with the PWLB and also what level inputs were used. This should be categorised as level 2 (some observable inputs).

Section 3: Value for Money

01. Executive summary

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Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Authority. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Authority has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

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.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated March 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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 carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

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

We have focused our work on the significant risks that we identified in the Authority's arrangements. In arriving at our conclusion, our main considerations were:

- The Authority has historically managed its finances well, achieving financial targets and delivering against its 2015/16 budget, as well as being on course to deliver its 2016/17 budget. Despite the significant reductions in service and the pace of change involved, the Authority continues to financially plan appropriately making medium term decisions and assessing the impact of these with sensitivity analysis.
- The Authority is in a period of considerable external change which will inform how it functions and provides services within the wider context of the West Midlands. Decisions are being considered and made at an appropriately senior level and whilst there is an understandable caution, the Authority are clear that greater collaboration and partnership working is the way forward. It is just not clear at this stage what that will look like and what governance arrangements will support this.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on the next page.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Authority had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed that:

- The pace of change results in these external modifications to working arrangements, partnerships and governance structures will continue to present a significant risk for the Authority going forward and as such, this should remain a key focus for the Authority over the coming months and years.

Management's response to these can be found in the Action Plan at Appendix A.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Informed decision making</p> <p>The Authority has historically managed its finances well, achieving financial targets and delivering against its 2015/16 budget, as well as being on course to deliver its 2016/17 budget</p> <p>Nevertheless the scale and pace of change for the Fire Service will effect future projections, particularly following announcements from the Comprehensive Spending Review, Autumn Statement 2015 and then more recently the final Local Government Finance Settlement 2016/17 published in February 2016.</p>	<p>We reviewed the Authority's arrangements in place for identifying, agreeing and monitoring its sustainability and operational plans, and communicating key findings to the Governing Body and Audit Committee.</p> <p>We reviewed the Authority's updated medium term financial plan and monthly financial monitoring reports and assess the assumptions used.</p>	<p>Service delivery is focussed on: prevention, protection and response.</p> <p>Performance is analysed on a quarterly basis and reported to the Scrutiny Committee. This is measured based on Key Performance Indicators (KPI's) set out in 'The Plan 2015 to 2018'.</p> <p>Authority funding is reducing year on year. Core Government funding is currently 63% of overall annual income. The Medium Term Financial Strategy (MTFS) anticipates that by 2019/20 the core funding received from Government will have reduced by a further 16% or in monetary terms £10 million. Measures are set in each annual budget to ensure the on-going sustainability of the fire authority. We have reviewed progress against these, as reported to the Fire Authority Committee on a quarterly basis.</p> <p>Overall we can conclude that adequate arrangements are in place to ensure the appropriate level of oversight at board level. The comprehensive organisation structure and frequency of meetings mean that information is relayed to members in a timely manner allowing them to resolve or challenge matters in relation to the operational and financial sustainability of the authority.</p> <p>We did not identify any material weaknesses in medium term strategy identified, either financial and non-financial, and the strategy acknowledges the funding restraints the Authority faces both now and in the future. The main assumptions are around the increase in precept income. The long term forecast also takes in to account general inflation and price increases, pay awards, pensions and rental increases. These appear reasonable based on our understanding of the wider economy. An accompanying sensitivity analysis has been undertaken, demonstrating the robustness of the MTFS projections.</p> <p>The Authority has surpassed budgeted expectation for both revenue and capital. This demonstrates an ability to deliver the medium term financial strategy and set realistic budgets based on reasonable assumptions.</p> <p>The fire authority set extensive and challenging key performance indicators (KPIs). In year monitoring demonstrates a trend of consistent under achievement against a number of these KPIs. However, these are not as a result of deficiencies in the deployment of resources or poor decision making, but more where factors are to a large extent outside of the Authority's control. The narrative commentary confirms that procedures in place are adequate for ensuring informed decision making.</p> <p>On this basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements</p>

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Working with partners and other third parties</p> <p>The Government is clear that the public sector needs to rethink the boundaries to create efficiencies and deliver services in a more meaningful way to the taxpayer. As such, they have passed legislation which devolves powers to localities. Furthermore, the Government also recently moved ministerial responsibility for Fire & Rescue to the Home Office from January 2016, with a view to supporting closer working within the blue light sector.</p> <p>The Authority is positioning itself to maximise the opportunities from the West Midlands Combined Authority which will be created in 2016/17 and the closer working which is anticipated between West Midlands Police and Fire services.</p>	<p>We have understood the partnership working within the West Midlands and how this is evolving to support the delivery of public sector services across the area.</p> <p>We have assessed the governance arrangements which are being established to support any significant partnerships and consider how these plans are reflected in the longer term strategic planning of the Authority.</p>	<p>The West Midlands Combined Authority, formed (in principle) in July 2015, is seeking agreement to devolve powers from Whitehall (Government) to the Midlands to be deployed by the local authorities. The aim is to meet the needs and demands of the community better. Funding was initially devolved in November 2015. Whilst the process is in its infancy nationally, the West Midlands arrangements make specific reference to the blue light partners.</p> <p>The Authority considered and agreed to be a non-constituent member of the combined authority to widen the level of services they provide and achieve better outcomes for the community while reducing the burden to the public sector. They have 'observer' status at the Board of the Combined Authority without membership. They make a financial contribution of £25,000 per annum and participate in debates leading up to the full approval of the combined authority but not participate in any voting should a vote arise. There is no formal blue print for connection to the Combined Authority, so this represents a starting point for collaboration and joint working going forward. This places them in a strong position to integrated with the development of the combined authority for the purpose of providing a value added, holistic service to the local community and wider public. Governance arrangements are still in their infancy.</p> <p>Following the transfer of ministerial responsibility for Fire & Rescue to the Home Office in January 2016, discussions between the Fire Service and Chief Constable's Police Force have progressed. There is an agreement within the West Midlands that closer working between the blue light sectors, where synergies can be identified, is a positive move. There is limited information around how this will develop and the Authority is clear that there should be a clear focus on benefits and outcomes. Closer working at a senior level or at an operational level will present different opportunities and risks and should enhance the overall service for the public, rather than be an expensive distraction, particularly to the developments within the Combined Authority. However, where costs savings can be identified, this should be progressed at a pace, as the asset review is demonstrating.</p> <p>On this basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements at this time.</p> <p>The pace of change results in these external modifications to working arrangements, partnerships and governance structures will continue to present a significant risk for the Authority going forward and as such, this should remain a key focus for the Authority over the coming months and years.</p>

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 5: 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

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Proposed fee £	Final fee £
Authority audit	38,636	38,636
Total audit fees (excluding VAT)	38,636	38,636

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Fees for other services

Service	Fees £
Audit related services	0
Non-audit services	
Presentations regarding changes in pension contribution allowances	3,500

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.

Section 6: 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 to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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		✓
Non compliance with laws and regulations		✓
Expected modifications to 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

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The pace of change results in these external modifications to working arrangements, partnerships and governance structures will continue to present a significant risk for the Authority going forward and as such, this should remain a key focus for the Authority over the coming months and years.	Medium		

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 (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). 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 Pension 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members 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 Treasurer and auditor

As explained more fully in the Statement of the Treasurer Responsibilities, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the 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 2015/16, which 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 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 Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative

Report and the Annual Governance Statement 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:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in '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 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**Respective responsibilities of the Authority and 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 20(1)(c) of the Act to be satisfied that the Authority has made 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 the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

[Signature]

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

The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

XX July 2016

Appendix C: Review of internal control issues raised in the prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<p>Weak password access controls for the Active Directory</p> <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>Recommendation</p> <p>We recommended that the Authority comply with recognised best practice:</p> <ul style="list-style-type: none"> • the 'maximum password age' value within Active Directory to between 30-60 days • the 'account lockout threshold' is set to between 3-5 attempts. 	<p>Network password amendments:</p> <ul style="list-style-type: none"> • Maximum age set to 60 days, • history set to 10 passwords remembered, and • complexity enabled. • Lockout not applied to avoid mobile devices causing issues on retry.
2.	✓	<p>No Change Management Procedures</p> <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>Recommendation</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>	<ul style="list-style-type: none"> • A draft Change Management policy document has been issued. • All ICT staff have been trained to ITIL foundation level with an outcome of understanding change management and change management processes. • An ITIL consultant has been engaged to implement Change Management procedures based on ITIL's 3 specified change types. (Standard, Normal and Emergency). • Recommendation was not to do this in isolation, but instead, perform a total review. • it is envisaged that the implementation of a change management process for Standard Changes will be completed by the end of September 2016.

Assessment
 ✓ Action completed
 X Not yet addressed

Appendix C: Review of internal control issues raised in the prior year (continued)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
3.	✓	<p>Excessive number of domain administrators</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>Recommendation 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>	<ul style="list-style-type: none"> • The number of named individual accounts in the Domain Administrators group has been reduced to 9. • This is considered to mitigate the risk to an acceptable level.
4.	✓	<p>Lack of formal review for Information Security policies and procedures</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> <p>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</p> <p>b) Effectiveness of security administration processes and controls may be diminished due to environmental and/or operational changes</p> <p>c) Information security processes, requirements and controls may be inconsistently defined, understood and implemented throughout the organization.</p> <p>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.</p> <p>Recommendation 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>	<ul style="list-style-type: none"> • As an organisation the Authority is moving away from policies and procedures and the matters are covered under Standing Orders 1/19, 1/20, 1/33 and 2/16. • In addition a further Standing Order 1/30 is being created. • Standing Orders 1/19, 1/20, 1/33 have been updated and published • Standing Order 2/16 has been updated. This now is pending review form PSS who are considering amalgamation of other SOs • Standing Order 1/30 has been submitted for publication. This is awaiting response.

Assessment
 ✓ Action completed
 X Not yet addressed



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