



# The Annual Audit Letter for West Midlands Fire & Rescue Authority

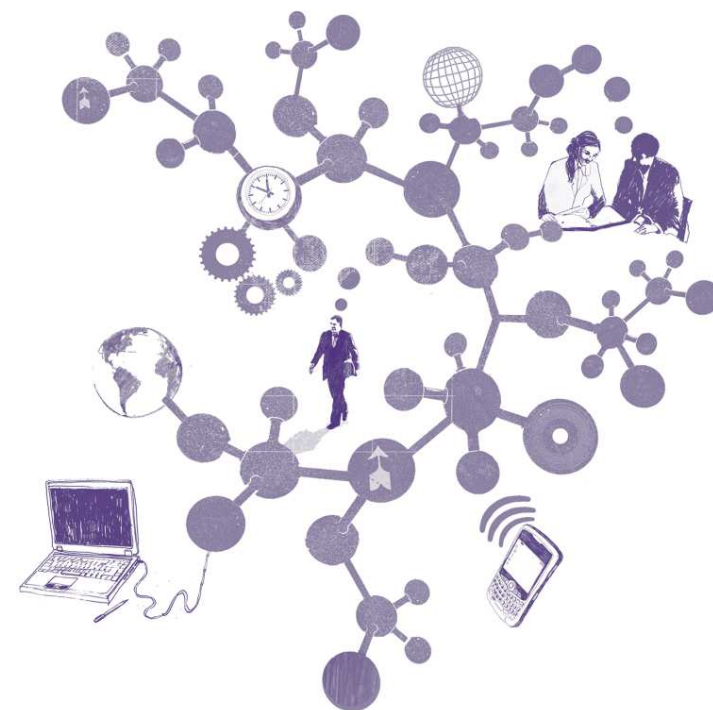
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**Year ended 31 March 2014**

October 2014

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# Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at West Midlands Fire & Rescue Authority ('the Authority') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Authority and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 24 March 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

## **Authority's Financial statements audit (including audit opinion)**

We issued an unqualified opinion on the Authority's 2013/14 financial statements on 26 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Authority's financial position and of the income and expenditure recorded by the Authority.

We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 22 September 2014 to the Fire Authority. The key messages reported were:

- We received draft financial statements and accompanying working papers on 19<sup>th</sup> June, in accordance with the timetable set by the Authority and ahead of the National deadline of 30<sup>th</sup> June 2014.
- The financial statements submitted for audit were yet again of good quality, delivered by an effective closedown process and supported by good quality working papers.
- Of particular note was the speed and efficiency queries were responded to by Authority staff.
- We identified no adjustments affecting the Authority's reported financial position. Both the draft and audited financial statements record Total Comprehensive Income and Expenditure as net income of £68.948 million.
- The Authority appropriately accounted for the prior period adjustments required by the changes to the international accounting standard IAS19 – Employee Benefits.
- We did identify a relatively small number of disclosure errors, and requested some adjustments to improve the presentation of the financial statements.
- There was only one unadjusted misstatement which was identified during the audit process. This related to the estimation for the valuation of the Birmingham Airport Training Building which has a net book value of £15k and had not been revalued by the external valuer. The Authority did not amend for this estimation.

# Key messages

## Value for Money (VfM) conclusion

We issued an unqualified VfM conclusion for 2013/14 on 26 September 2014.

- Financial Resilience - the Authority is considered to be in a sound financial position at this time. The Authority has total usable reserves of £43.6 million which is a healthy level of reserves, together with a track record of delivering financial performance in line with budgets. Most of these reserves are earmarked for specific purposes, leaving an un-earmarked General Fund balance of £9.2 million.
- The Authority had effective arrangements in place which enabled it to deliver its challenging savings programme in 2013/14.
- There are greater challenges in the future with the need to achieve further savings over the next three years, estimated at £5.8 million (8.6%) in 2015/16, £4.4 million (7%) in 2016/17 and £4.1 million (7%) in 2017/18.
- Achieving these savings is critically important as the level of planned reductions in grant funding from central government between 2014 and 2018 exceeds the level of the Authority's reserves that are not specifically earmarked.
- The Authority has identified that it may require additional funding from Council Tax payers to continue to provide current service levels and response times. The additional funding may be above the percentage increase that would trigger a referendum which would require approval from Council Tax Payers. The Authority will need to weigh up very carefully the costs and risks associated with holding a referendum across such a large council tax base.
- Financial and operational planning - the Authority has reviewed its operational model and its key commitments to attending high risk incidents within 5 minutes and to focus on prevention and protection. The operational and financial strategy is clearly set out in "The Plan 2014-2017 – Making West Midlands Safer". This document combines the priorities, performance targets and the funding plans and complements the Medium Term Financial Strategy which provides detailed plans for three years based on sensitivity analysis and scenario planning.
- Joint working - the Authority is keen to work in partnership wherever possible and a key project, Joint Control Room with Stoke & Staffordshire Fire & Rescue Authority has been successfully implemented, resulting in financial savings and enhanced operational resilience. A number of other collaboration initiatives are in hand, including an arrangement with the ambulance service to base ambulances at Aston Fire Station.
- The Safeside facility continues to make an important contribution to the prevention and protection agenda, and is an excellent example of effective partnership working across a wide range of partner organisations including the police and ambulance services, a supermarket, a bus company, Network Rail as well as local schools and colleges.
- Steps have also been taken to increase the value for money in the use of office space and under-used parts of the headquarters building have been rented out to generate additional income.

# Key messages

<p><b>Value for Money (VfM) conclusion continued</b></p>	<p>Our work on economy, efficiency and effectiveness concluded that:</p> <ul style="list-style-type: none"> <li>• The Authority had effective arrangements in place which enabled it to deliver its challenging savings programme in 2013/14.</li> <li>• The Authority faces even greater challenges in the future with the need to achieve further savings over the next three years, estimated at £5.8 million (8.6%) in 2015/16, £4.4 million (7%) in 2016/17 and £4.1 million (7%) in 2017/18.</li> <li>• Whilst the Authority has effective arrangements for prioritising its resources, looking at new service delivery arrangements and working co-operatively with partners, the continued improvement of these arrangements will be crucial to meeting the significant financial challenges in the future.</li> <li>• Overall we are satisfied that in the short-term the Authority is in a sound financial position. It is taking actions to identify medium-term requirements and options. There remains significant uncertainty and it will be important for the Authority to ensure that future financial plans are fully developed, agreed and delivered. 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 put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.</li> </ul>
<p><b>Whole of Government Accounts</b></p>	<p>We reviewed the consolidation pack prepared by the Council to support the production of the Government's Whole of Government Accounts. In line with our instructions we reported that the Council was below the audit threshold level set by the National Audit Office and reviewed the worksheets specified for bodies below the audit threshold. We confirmed that the closing figures for Property, plant &amp; equipment and Pensions liabilities in the consolidation pack were consistent with those in the Council's financial statements on 26 September 2014 in advance of the deadline.</p>
<p><b>Audit fee</b></p>	<p>Our fee for 2013/14 was £51,515, excluding VAT which was in line with our planned fee for the year. This includes work for the opinion, value for money conclusion, whole of government accounts and our reporting to those charged with governance. Further detail is included within appendix B.</p>
<p><b>Additional work</b></p>	<p>We have not undertaken any additional pieces of work at the Authority in 2013/14.</p>

# Key messages

## Looking forward

The Authority's 2014/15 financial position to month 5 shows an actual spend, including commitments, of £41.858 million compared with a projected budget of £42.543 million. This is an overall favourable variance of £0.685 million, mainly as a result of staff vacancies and income from the Fire Control project.

The Community Interest Company "West Midlands Fire Service Business Safety Ltd" was established in 2012 to provide fire and rescue related services to the private and public sector business community. Due to changes in the direction of the Authority which have developed since its establishment, it is unsure whether there remains a requirement for this company to be retained. The Authority is expecting to make a decision on the future of the company in November 2014. The Authority continues to explore all alternative delivery models and partnerships to ensure that services are delivered in the most efficient way.

The Authority has recently changed the structure of its Senior Management Team to support the Chief Fire Officer (CFO) in making more informed, evidenced based decisions in line with the delivery of the strategic priorities set out by the Authority in 'The Plan 2014-17'. The CFO has also re-configured the strategic decision making framework and has proposed the implementation of a new strategic team to be called the Strategic Enabling Team ("SET"). This team, made up of 15 strategic managers, will replace the current Corporate Board arrangements in enabling effective decision-making led by the CFO on behalf of the Fire Authority.

In addition to supporting the delivery of The Plan, the preferred proposal, if implemented, will bring significant annual cost savings. Previously, the Fire Authority has stated that efficiencies delivered should aim to be in line with forecast Comprehensive Spending Review reductions of around 24% for the period 2015-18. Broadly, this review will enable that expectation to be met.

The pace of these changes are being driven by the timetable to reduce Government funding. However, whether linked to austerity or investment members, officers and partner organisations will need to ensure that everyone understands the changes and their implications. The overall strategy remains clear and the decisions which are being made are consistent with it.

# Appendix A: Key issues and recommendations

This appendix summarises the significant recommendations identified during the 2013/14 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p><b>Incorrect parameters resulting in insufficient contributions initially made to the pension scheme</b></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> <p><b>Recommendation</b></p> <p>Periodically review the parameters to ensure the correct deductions are being applied for pensions.</p>	Medium	<p><b>Management response:</b> Agreed</p> <p><b>Responsible office:</b> Payrolls and Pensions Manager</p> <p><b>Due date:</b> December 2014</p>
2.	<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 weaknesses. Without adequate logical access controls in place there is an increased risk of unauthorised access being gained to information assets.</p> <p><b>Recommendation</b></p> <p>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.</p>	Medium	<p><b>Management response:</b> Agreed</p> <p><b>Responsible office:</b> Strategic Enabler of Information &amp; Communications Technology</p> <p><b>Due date:</b> December 2014</p>
3.	<p><b>IT policies and procedures</b></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 2012/13.</p> <p>There are also 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><b>Recommendation</b></p> <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>	Medium	<p><b>Management response:</b> Agreed</p> <p><b>Responsible office:</b> Strategic Enabler of Information &amp; Communications Technology</p> <p><b>Due date:</b> March 2015</p>

## Appendix A: Key issues and recommendations

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
4.	<p><b>Community Interest Company</b></p> <p>The Authority has a Community Interest Company which was established in 2012 to provide fire and rescue related services to the private and public sector business community. The level of the trading to date has been minimal and does not have a significant impact on the Authority's accounts, but this needs to be kept under review to ensure that future reporting complies with statutory requirements and disclosures required for Local Government accounting.</p> <p><b>Recommendation</b></p> <p>Review the accounting and audit arrangements for the Community Interest Company to assess whether more detailed disclosures will be required in the Fire Authority accounts in future.</p>	Medium	<p><b>Management response:</b> Agreed</p> <p><b>Responsible office:</b> Finance Manager</p> <p><b>Due date:</b> March 2015</p>



# Appendix B: Reports issued and fees

We confirm below the fee charged for the audit undertaken within 2013/14. There were no non-audit services undertaken in the financial year.

## Fees

	Per Audit plan £	Actual fees £
Authority audit	51,515	51,515
Additional services	0	0
<b>Total Authority audit fees (excl of VAT)</b>	<b>51,515</b>	<b>51,515</b>

## Fees for other services

Service	Fees £
None	Nil

## Reports issued relating to 2013/14

Report	Date issued
Audit Plan	24 March 2014
Audit Findings Report	22 September 2014
Annual Audit Letter	October 2014



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