

Audit Findings

Year ending 31 March 2018

West Midlands Fire and Rescue Authority

July 2018

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. This draft has been created from the template dated DD MMM YYYY



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

Introduction

This table summarises the key issues arising from the statutory audit of West Midlands Fire & Rescue Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Authority's financial statements give a true and fair view of the financial position of the Authority and its income and expenditure for the year, and have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting; other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), are consistent with the financial statements 	<p>Our audit work was completed on site during May and June. We have not identified any adjustments affecting the Authority's reported financial position. We did identify a small number of disclosure errors and requested some adjustments to improve the presentation of the financial statements. These changes were agreed and have been made in the final version of the accounts. Those of note are detailed in Appendix A.</p> <p>We anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 23 July 2018, as detailed in the committee agenda. Our audit is substantially complete although we are finalising our procedures in the following areas.</p> <p>These outstanding items include:</p> <ul style="list-style-type: none"> receipt of management representation letter; updating our post balance sheet events review to the date of signing the opinion; and review of the final set of financial statements, <p>We have concluded that the other information published with the financial statements, which includes the Annual Governance Statement and Narrative Report are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion') 	<p>We have completed our risk based review of the Authority's value for money arrangements. We have concluded that West Midlands Fire & Rescue Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix C. Our findings are summarised from page 9.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and certify the closure of the audit 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

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.

Financial Statements Summary

Overview of the scope of our audit

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

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

Audit approach

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

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

Conclusion

We have substantially completed our audit of your financial statements and subject to any outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 23 July 2018, as detailed in the committee agenda. These outstanding items include:

- receipt of management representation letter;
- updating our post balance sheet events review to the date of signing the opinion; and
- review of the final set of financial statements,

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for West Midlands Fire & Rescue Authority.

	Authority Amount (£)	Qualitative factors considered
Materiality for the financial statements	£2,489,000	Financial performance of the Authority focusing on expenditure.
Performance materiality	£1,867,000	Previous quality of the working papers and response to audit processes. Quality of financial systems and internal controls.
Trivial matters	£124,000	The amount below which matters would be considered trivial to the reader of the accounts.
Materiality for specific transactions, balances or disclosures	£100,000	Materiality has been reduced for remuneration disclosures to £100k due to its sensitive nature and public interest.

Significant audit risks




Risks identified in our Audit Plan	Commentary
<p>1. Improper revenue recognition</p> <p>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the 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, and • the culture and ethical frameworks of local authorities, including West Midlands Fire & Rescue Authority, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for West Midlands Fire & Rescue Authority.</p>
<p>2. Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • reviewed entity controls, • reviewed journal entry processes and selected unusual journal entries for testing back to supporting documentation, • reviewed accounting estimates, judgements and decisions made by management, • reviewed unusual significant transactions, and • reviewed significant related party transactions outside the normal course of business. <p>Our audit work has not identified any issues in respect of management override of controls. In particular, the findings of our review of journal controls and testing has not identified any significant issues.</p>
<p>3. Valuation of pension fund net liability</p> <p>The Authority's LGPS pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>The Firefighters Pension schemes pension fund liability as reflected in the balance sheet and notes to the accounts represent significant estimates in the financial statements.</p> <p>These estimates by their nature are subject to significant estimation uncertainty, being sensitive to small adjustments in the assumptions made.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement, • reviewed the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation, • gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made, and • reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. <p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liabilities.</p>

Reasonably possible audit risks




Risks identified in our Audit Plan	Commentary
<p>4. Employee remuneration</p> <p>Payroll expenditure represents a significant percentage (58%) of the Authority's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle, • undertaken a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding, • review the reconciliation of the payroll system to the general ledger and to the financial statements to agree completeness of costs, and • performed a trend analysis and detailed substantive testing of pay costs to ensure employee remuneration costs were accurate and complete. <p>Our audit work has not identified any issues in respect of employee remuneration.</p>
<p>5. Operating expenses</p> <p>Non-pay expenses on other goods and services also represents a significant percentage of the Authority's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non-pay expenses as a risk requiring particular audit attention.</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • evaluated the Authority's accounting policy for recognition of non-pay expenditure for appropriateness, • gained an understanding of the Authority's system for accounting for non-pay expenditure and evaluate the design of the associated controls, and • performed expenditure cut-off testing by agreeing to source documentation to ensure that expenditure is recorded in the correct financial year. <p>Our audit work has not identified any issues in respect of operating expenses.</p>
<p>6. Firefighters pension scheme</p> <p>The Authority administers the firefighters pension schemes, with the Firefighters Pension Fund Account being included in the financial statements.</p> <p>We identified completeness and accuracy of pension benefits payable as a risk requiring particular audit attention.</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • gained an understanding of the Authority's systems for calculating, accounting for and monitoring pension benefit payments and evaluated the design of the associated controls, and • performed detailed testing on new firefighters pension benefit payments. <p>Our audit work has not identified any issues in respect of firefighter pension benefits payable.</p>

Accounting policies

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority. Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority. Government grants and contributions are recognised in the CIES when conditions attached to the grant or contribution have been satisfied. Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as receipts in advance. The precept included in the CIES is the Authority's share of accrued income for the year. 	<p>The majority of the Authority's income is from government grants and contributions therefore the revenue recognition policies included within the accounts are appropriate for the Authority's activities.</p> <p>The policies are also consistent with the CIPFA code.</p>	 Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> Useful life of PPE Revaluations Impairments Accruals Valuation of pension fund net liability Provisions 	<p>We have reviewed the Authority's accounting policies in relation to judgements and estimates made in the financial statements against the requirements of the CIPFA code. The policies are consistent with the requirements.</p>	 Green
Other critical policies	<ul style="list-style-type: none"> Accounting policies are detailed in note 1 to the financial statements. There are 19 policies covering the material disclosures in the accounts. 	<p>We have reviewed the Authority's policies against the requirements of the CIPFA Code of Practice. The Authority's accounting policies are appropriate and consistent with previous years.</p>	 Green

Assessment

-  Marginal accounting policy which could potentially be open to challenge by 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 procedures.
② Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④ Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Authority.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send a bank confirmation request. This permission was granted and the requests were sent. These requests were returned with positive confirmation.
⑥ Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
⑦ Significant difficulties	<ul style="list-style-type: none"> There were no significant difficulties encountered whilst undertaking our audit work.
⑧ Matters on which we report by exception	<p>We have not identified any issues we would be required to report by exception in the following areas</p> <ul style="list-style-type: none"> 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.
⑨ Specified procedures for Whole of Government Accounts	<p>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.</p> <ul style="list-style-type: none"> Work is not required as the Authority does not exceed the threshold.

Value for Money

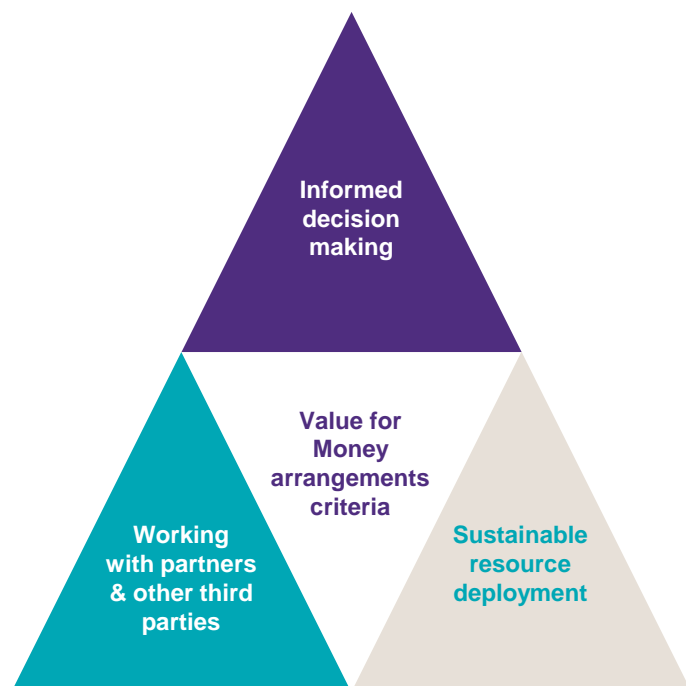
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in February 2018 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. This risk is in relation to the development of governance arrangements with the West Midlands Combined Authority (WMCA). We communicated this risk to you in our Audit Plan dated March 2018.

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 risk 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.

Whilst we have not identified any further significant risks for 2017/18. We do however recognise that the Authority is operating within a dynamic environment as part of the West Midlands.

Value for Money

Our work

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

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

- the Authority's progress towards preparing governance arrangements to join the WMCA.
- the financial strategy and assumptions relating to the Authority once it has joined the WMCA, including income streams and use of reserves.

We have set out more detail on the risk we identified, the results of the work we performed and the conclusions we drew from this work on pages 11 and 12.

Background

The governance model being implemented in the West Midlands is similar to the model used in Greater Manchester. The West Midlands Combined Authority (WMCA) will be responsible for the fire service, including all employment responsibilities, all properties, and all rights and liabilities. The Mayor will have the power to 'exercise' these fire and rescue functions and the ability to delegate decision making and operation of functions, as appropriate. It is anticipated that the Mayor will delegate these functions to the CFO.

Scrutiny will be provided by a Mayoral Fire Advisory Committee, with membership from each constituent authority. This Committee will report back to the WMCA Board on the impact of the decisions made by the Mayor.

The intended benefits are to:

- Improve the accountability of the Fire and Rescue Service through an elected Mayor.
- Allow Fire and Rescue to work more effectively with other West Midlands bodies to improve services for local people.
- Save public money by sharing corporate services such as human resources, finance and IT.

This arrangement is still subject to Home Office approval. The target date for implementation is 1 April 2019.

Since April 2018 the Authority has been seeking to settle its dispute with the Fire Brigades Union. As part of its response the Authority's Executive Committee has decided that the 'Plan', (the Authority's service and financial strategy for the three years 2018 to 2021), should be revised. In particular the revised employment contract has been withdrawn, resulting in the Authority no longer being able to provide "Wider Health Related" services as planned. This impacts on the delivery of the Financial Efficiency Plan (FEP), reducing projected income generation by £2.0 million.

The Authority has a significant funding issue to respond to. It is likely in the short term that there will be a call on working balances to balance the 2018/19 financial position. Over the medium term the FEP will need a significant re-assessment to ensure a deliverable sustainable financial plan is in place.

It is clearly important that the Fire Authority can demonstrate to the WMCA Board that it has a realistic financial strategy in place to deliver a financially sustainable service as part of the new governance framework.

Overall conclusion

We have gained sufficient assurance that there are no significant VFM risks relating to the proposed WMCA governance arrangements which adversely impact on our VFM conclusion for 2017/18.

Based on the work we performed to address the significant risk, we have 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 C. We have discussed our findings from our work with management.

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.

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	Findings	Conclusion
1	Governance	<u>Delivering efficiencies</u>	Auditor view
	Development and implementation of combined governance arrangements for WMFRA and WMCA.	<p>The Authority considers that being part of the Mayoral WMCA will create further opportunities to progress transformation and create greater efficiencies enabled through a single structure with potential for efficiencies across all the governance models which were appraised considering opportunities such as (but not restricted to) emergency planning, shared estates, data sharing.</p> <p>Progressing transformation and delivering greater efficiencies is challenging. The outcome of the recent Fire Brigades Union (FBU) ballot illustrates this. The delivery of the Authority's workforce reform programme included the introduction of revised employment contracts for new firefighters. These are designed to enable sustainable service delivery including wider health activities. Over 100 firefighters have been recruited on this revised contract.</p> <p>The FBU dispute has focused on this new contract, with 74% of FBU members voting to take industrial action over this issue. In June 2018 the Authority's Executive Committee (comprising of Members from constituent authorities) decided to withdraw the new entrant contract. This requires the Authority to reconsider service changes, workforce planning and options to close the funding gap to ensure it delivers its service and financial priorities.</p> <p>The "wider health related" services are a key element of the Authority's wider integration strategy, increasing its role in delivering outcomes in conjunction with other public sector services, including Police, Health bodies and Local Government bodies. The FEP includes £2.0 million of income generated by wider health related services. This is an integral part of the financial strategy and the new entrant contract was a key part of the delivery of this. If the Authority is no longer able to provide the service as planned the ability to expand and grow this strand of the business model will be curtailed.</p>	<p><u>Delivering efficiencies</u></p> <p>It is vital that the fire service remains open and flexible to opportunities for delivering service requirements with limited resources. Partnership working will be key to this which has been recognised by the Senior Leaders of both the Fire Service and the Authority.</p> <p>The Authority needs to demonstrate how financial sustainability is deliverable with the withdrawal of the new entrant contract.</p> <p>It is likely that a use of working balances will be required to support 2018/19 budget delivery. However, the continued use of balances is not sustainable. In our view significant funding alternatives or service reductions should be identified by the Authority before the transfer to WMCA.</p> <p>Without the expansion of wider health related services there will be significant limitations on the level of integration possible with the WMCA constituent Local Authorities, Health partners and West Midlands Police.</p> <p>The Authority needs to re-assess its wider integration strategy.</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	Findings	Conclusion
1	Governance	<p><u>Pace of change</u></p> <p>WMCA is a key driver of public service reform in the region. In 2016/17 WMFRA signalled its intention to become part of WMCA's overall governance structure. The Policing and Crime Act 2017 was prime legislation for facilitating closer collaboration between the police and fire and rescue services. However, the West Midlands PCC has not exercised this power to take on responsibility for Fire services. This enabled the Authority and WMCA to pursue and progress joint future structural and governance arrangements.</p> <p>There is continuous reporting through WMCA Board. This ensures that members are aware of progress and engages Leaders from the seven constituent West Midlands Local Authorities to enable informed decision making on this key structural issue.</p> <p>WMFRA is managing the 'Future Governance Project' which is in the initial phases of setting up a 'governance implementation project'. To date key milestones have been achieved, but full implementation is dependent on approval of the Parliamentary Order in December 2018. There is a risk that this may be delayed.</p> <p><u>Revised governance arrangements</u></p> <p>The proposed model submitted to the Home Office for approval in May 2018 sets out that:</p> <ul style="list-style-type: none"> • WMCA will be the employer of WMFS staff and will own all properties, rights and liabilities, having the appropriate structures in place to support the requirements of employer status, as well as any liabilities that result from this. • The Mayor (only) will have the power to 'exercise' fire and rescue functions and the ability to delegate decision making and operation of functions, as appropriate. <p>Accountability – the Mayor will delegate functions to the Chief Fire Officer (CFO) enabling the CFO to be directly accountable for managing staff, employee relations, workforce development, resources and assets to support the delivery of day to day functions, as well as the development of future delivery of services aligned to the strategy agreed with the Mayor.</p> <p>Scrutiny – development of a proposed Mayoral Fire Advisory Committee, reflecting the membership of each constituent authority. It is proposed that the WMCA Board delegates the role of reviewing decisions made by the Mayor to the committee and receives reports back on these matters.</p> <p>This proposed model seeks to create an efficient and effective decision making structure, which will support the Mayor in focusing on strategy and setting direction for the fire service. A governance review was undertaken with a scheme setting out the roles, accountabilities and powers required by each individual and body in the proposed new governance model. This was followed by consultation with constituent councils and a public consultation. This sets out the importance of a clear split between the advisory/review responsibilities of the Mayoral Fire Advisory Committee and the statutory scrutiny responsibilities of Overview & Scrutiny Committee.</p>	<p>Auditor view</p> <p><u>Pace of change</u></p> <p>There is continuous reporting through WMCA Board to engage Leaders from the seven constituent West Midlands Local Authorities to enable informed decision making on this key structural issue.</p> <p>There is a risk that full implementation may be delayed by the Parliamentary timetable.</p> <p><u>Revised governance arrangements</u></p> <p>The Governance arrangements should provide a clear split between the roles of holding to account and scrutinising. The proposed sets this out in the roles of the Mayoral Fire Advisory Committee and Overview & Scrutiny Committee.</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	Findings	Conclusion
1	Governance	<u>Managing risk</u>	Auditor view
	Development and implementation of combined governance arrangements for WMFRA and WMCA.	<p>In response to this changing agenda (both politically and structurally), the Authority has continued to report progress against its strategic risks which includes Public Service Reform. There is an acceptance that to meet the complex and diversifying needs of the public, more cross sector working is required.</p> <p>The Corporate Risk Assurance Map reported to the Audit Committee focuses on key strategic risks for the Authority. Whilst this broadly touches on the governance reform, the project of driving structural and governance change has a separate risk register. This is reported to the Authority's internal programme board and/or the Executive team, depending on the level of risk and its status. General monitoring takes place via project meetings.</p> <p>Our review has identified additional risks for which there is currently no resolution. These are known to the Authority and will be addressed as part of the 'getting into the detail' once the overarching governance structure is approved. In summary, they relate to financial, people, governance and wider public sector risks.</p> <p>Financial risks – these include the financial impact of the decision to withdraw the new entrant contract, revenue funding and precepting, funding of pension liabilities, budget setting responsibilities and the discharge of the Chief Finance Officer role under section 151 of the Local Government Act 1972, management of assets and the impact of harmonising accounting policies.</p> <p>People risks – these include staff management and liaising with trade unions.</p> <p>Governance risks – includes managing tensions between fire service objectives and the broader Combined Authority priorities where these are not consistent.</p> <p>Wider public sector risks – including the impact of the likely curtailment of wider health related services on further integration with public sector partners, and opportunities to extend and develop partnerships with other emergency service organisations including Warwickshire Fire and Rescue Service and West Midlands Ambulance Service.</p>	<p><u>Managing risk</u></p> <p>Risks are being managed at an Authority level and at a project level but the detail of how arrangements will be delivered is not yet being worked through due to the uncertainty of the over-arching governance arrangements. This will be addressed as part of the next phase of the project, but should not be over-looked as there are significant issues which remain unresolved.</p> <p>The CFO should continue to ensure that risks are appropriately managed and reported on to those with oversight of the arrangements.</p>

Independence and ethics

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No non-audit services were identified.

Audit Adjustments

Misclassification and disclosure changes

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

Adjustment type	Detail	Auditor recommendations	Adjusted?
Disclosure	<ul style="list-style-type: none"> Note 15.4.4 – Fair value hierarchy for financial assets and financial liabilities 	<p>The following amendments were made to page 57:</p> <ul style="list-style-type: none"> Total liabilities were amended from £4,955k to £69,779k. Total assets were amended from £6,741k to £58,120k. <p>The correction to the totals within the disclosure note did not require any changes to the core financial statements</p>	✓
Disclosure	<ul style="list-style-type: none"> Note 5 – Material Items of Income and Expenditure 	<p>Note 5 was updated to include commentary that the Authority took the option of making a 3 year lump sum pension payment to West Midlands Pension Fund.</p> <p>This provided savings above that which could have been obtained by investing the surplus funds. The decision to invest was agreed with us as auditors prior to any transaction being made. A number of members of the West Midlands Pension Fund took this option.</p>	✓
Disclosure	<ul style="list-style-type: none"> Note 6 – Events after the reporting period 	<p>Note 6 was updated to include commentary on the recently balloted industrial dispute.</p> <p>Since the financial year end, the Fire Brigade Union has balloted its members to determine whether industrial action would be taken. Following a ballot which voted in favour of industrial action by members, discussions between Senior Management and the Union are on-going.</p>	✓
Disclosure	<ul style="list-style-type: none"> Various 	<p>A small number of other presentational and disclosure amendments have been made.</p>	✓

Fees

We confirm below our final fees charged for the audit.

Audit Fees

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

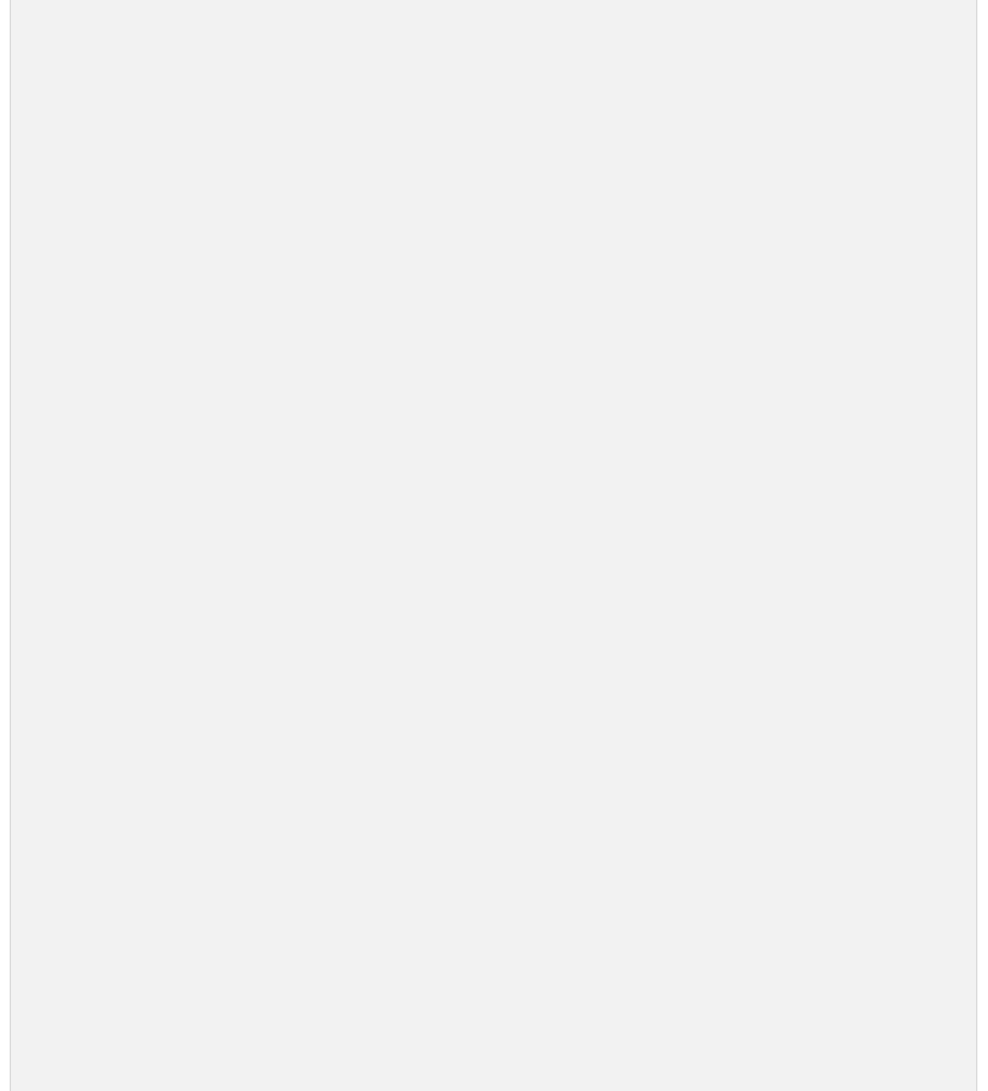
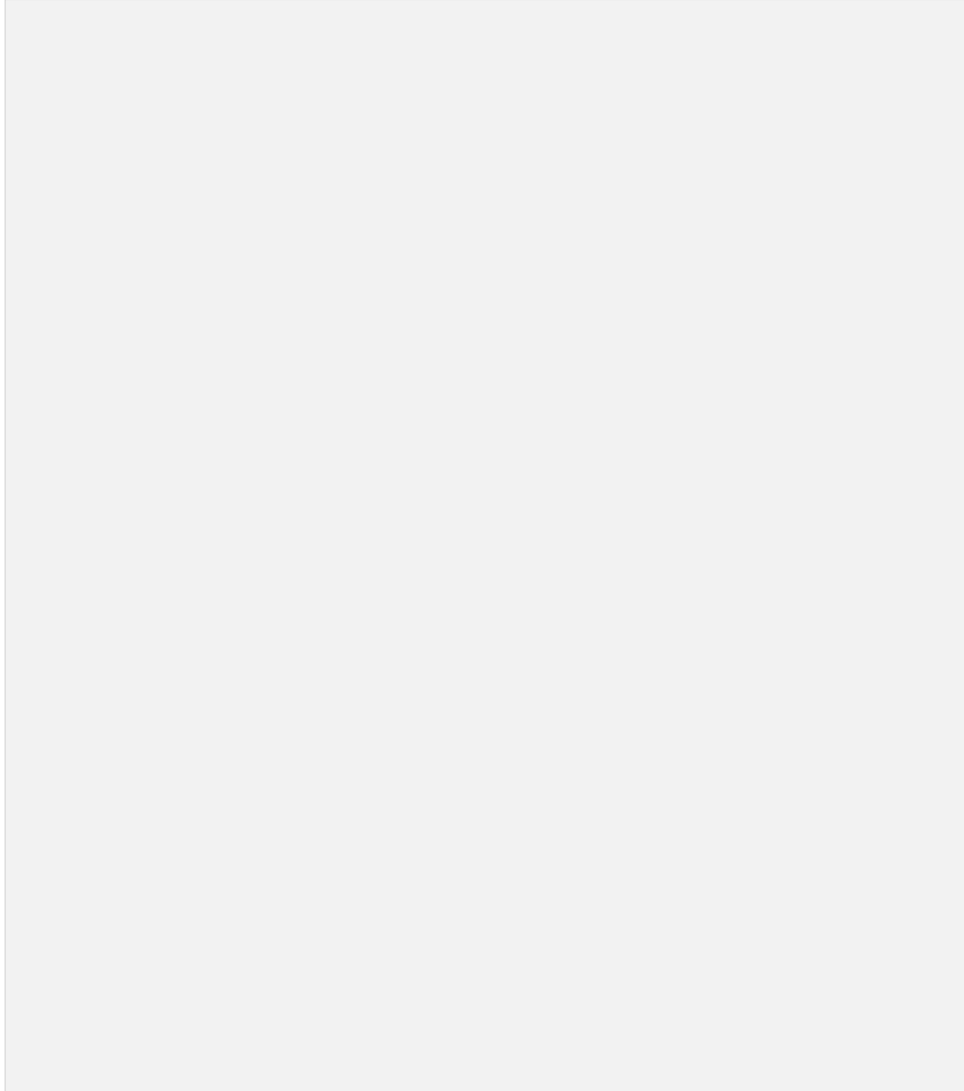
The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

No non-audit or audit related services were undertaken for the Authority.

Audit opinion

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

INSERT FULL TEXT OF THE PROPOSED OPINION BASED ON THE TEMPLATE OPINIONS





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