

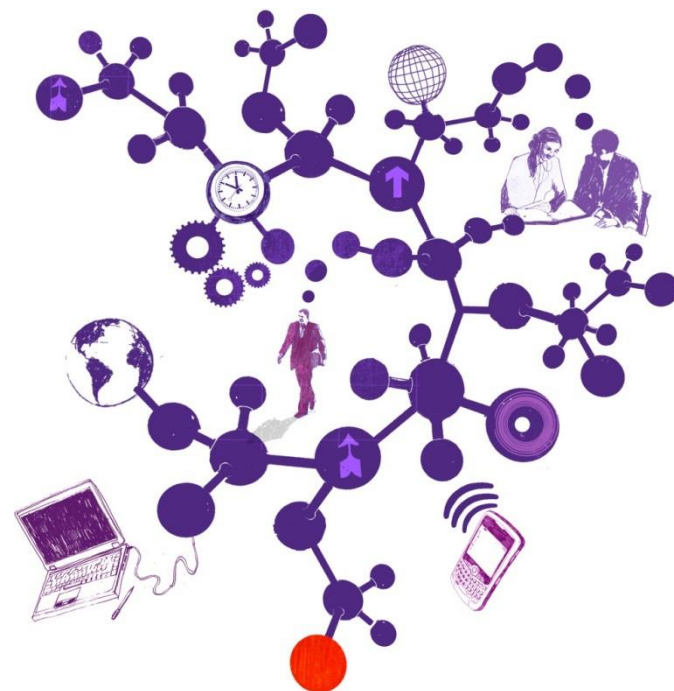
Audit Committee Update for West Midlands Fire & Rescue Authority

Year ended 31 March 2015

March 2015

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

Introduction

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

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- All aboard? our local government governance review 2015
- Stronger futures: development of the local government pension scheme
- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

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

Progress to date

Work	Planned date	Complete?	Comments
2014/15 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Fire Authority setting out our proposed approach in order to give an opinion on the Fire Authority's 2014/15 financial statements.	March 2015	Yes	We continue to assess the risks facing your Council and meet with Senior Officers to ensure that these risks are fully understood and our proposed audit work is appropriate to support our final opinion and VfM conclusion. If there are any revisions to the plan we will agree this with the Strategic Enabler of Finance and Resources and report back to Audit Committee.
Interim accounts audit Our interim fieldwork visits include: <ul style="list-style-type: none"> • updating our review of the Fire Authority's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	January and March 2015	In progress	We have engaged with the finance team to streamline and improve the audit approach for 2014/15 where possible and discuss technical issues early. Discussion to date has focused on the logistics of the final accounts visit and the calculation of MRP for 2015/16 which informs the Medium Term Financial Plan. We continue to work closely with Internal Audit in relation to risk, work on the financial statements and fraud. Our approach for 2014/15 will be to undertake as much early testing as possible to reduce pressure on the finance and audit team over the summer months.
2014/15 final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2014/15 financial statements • proposed opinion on the Fire Authority's accounts • proposed Value for Money conclusion. 	June – September 2015	Not started	The on-site work will commence on 22 nd June 2015.

Progress to date

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2014/15 VfM conclusion requires conclusions on whether: <ul style="list-style-type: none"> • The organisation has proper arrangements in place for securing financial resilience. • The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. 	January – July 2015	In progress	The scope of our work to inform the 2014/15 VfM conclusion is detailed within the Audit Plan. We will review key documents and meet with key Senior Officers to inform our overall understanding of the Council and capture evidence of how the Council is securing value for money in all areas of service delivery. There will also be a strong focus on financial resilience and how the Authority is preparing itself for future years.
Annual Audit Letter A summary of all work completed as part of the 2014/15 audit.	October 2015	Not started	
Engagement with the Authority since the last Committee meeting	N/A	N/A	<ul style="list-style-type: none"> • Discussions with the finance team to confirm arrangements for final accounts and other financial reporting issues • Meetings with Internal Audit to discuss findings and key risks • Shared National thought leadership publications with Senior Officers

Crews control: making better use of people and equipment

Grant Thornton

Our third UK fire summit focuses on how the fire service can make better use of people and equipment. It is available for download at <http://www.grant-thornton.co.uk/Global/GT.1146%20Fire%20and%20Rescue%20-%202015%20FINAL.pdf>

The nature of the fire service is changing, fire safety initiatives, improved building construction and furniture design mean that fire services can now spend as much time responding to road traffic accidents as they do dealing with fires. Fire services also face an unprecedented financial challenge. The typical fire service has seen its funding reduced by more than a quarter, with the likelihood of more reductions to come.

With employment costs typically representing three-quarters of revenue expenditure it is critical that firefighters' are deployed in an efficient and effective manner. Significant changes are vital in order for the service to survive. Put simply the fire service needs to make better use of firefighters time and have appliances that are more flexible and suited to the risks faced.

Making these changes is not easy. There are significant barriers to changing historic crewing arrangements and the introduction of new appliance types cannot be implemented overnight. However, the pace of change is slow and uncertainty remains as to whether the changes needed can be actioned at the speed required.

Key messages from the report

- Doing nothing with current firefighter crewing arrangements is not an option.
- The changing nature of incident response requires a different mix of appliance type.
- There is not a one size that fits all solution, but fire services need to understand and analyse their local risks and ensure firefighter crewing and equipment (including appliances) appropriately reflect these risks.
- There are significant barriers to changing crewing working practices but there are signs across the country that these barriers are being overcome.
- Alternatives to the traditional fire appliance in the form of light rescue pumps, rapid intervention vehicles and even motorbikes with panniers are examples of changes that will enable a more effective response to incidents going forward.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



All Aboard? - Local Government Governance Review 2015

Grant Thornton

Our fourth annual review of local government governance is available at <http://www.grant-thornton.co.uk/en/Publications/2015/Local-Government-Governance-review-2015-All-aboard1/>.

We note that the challenges faced by local authorities are intensifying as austerity and funding reductions combine with demographic pressures and technological changes to create a potential threat to the long -term sustainability to some organisations. Maintaining effective governance is becoming ever more complex and increasingly important.

Against this background we have focused this year's review on three key areas:

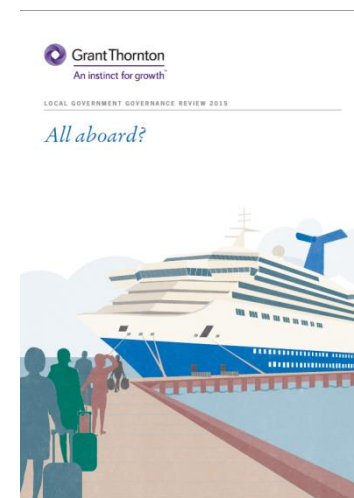
Governance of the organisation – the main area of concern highlighted in this year's governance survey
Is the level of dissatisfaction with the scrutiny process.

Governance in working with others – there is an urgent need for scrutiny to exercise good governance over the complex array of partnerships in which local authorities are now involved. Boundary issues notwithstanding, by 'shining a light' on contracted-out activities and joint operations or ventures, scrutiny committees can bring a new level of transparency and accountability to these areas

Governance of stakeholder relations – despite the work that a number of local authorities are doing with the public on 'co-production', almost a third of respondents to our survey did not think their organisation actively involves service users in designing the future scope and delivery of its services.

We conclude that local authorities need to ensure that their core objectives and values are fulfilled through Many other agencies . This implies a greater role for scrutiny and a need to make sure local public sector Bodies' arrangements are a transparent as possible for stakeholders.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



Stronger futures: development of the LGPS

Grant Thornton

Our second review on governance in LGPS funds in England and Wales is based on comprehensive research with pension fund senior officers, supported by insights from pension fund auditors and is available at <http://www.grant-thornton.co.uk/Publications/2015/Stronger-futures-development-of-the-LGPS/>

With the local government pensions scheme (LGPS) continuing to face significant change and challenge, there is a clear commitment to ensuring its survival and the provision of affordable pension benefits for the future. Following the implementation of a career average pension scheme in 2014, administering authorities are preparing for significant changes in governance arrangements effective from April 2015.

Some of the key messages from the report are:

- there are increasing strong examples of innovation and increased collaborative working across the LGPS to achieve reduced costs and improved use of specialist skills and knowledge;

- implementation of the career average scheme from April 2014 went well and demonstrated good project management and effective communication with members and employers; and

- there have been several other positive trends across the LGPS since our 2013 review particularly around the widening scope of reporting to Pension Committees including performance reporting, risk management and internal audit reviews.

However, we saw a wide variation in practice, including a concentration of risk reporting on investment risk, over half of funds have not implemented the CIPFA knowledge and skills framework as part of their member training, 45 per cent of Pension Committees do not receive internal audit reports and 15 per cent do not have specific internal audit coverage, and nearly half of funds have no information around the value of their liabilities in between the triennial valuations.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



Stronger futures:
development of the LGPS

Improving governance in local government pension schemes
February 2015



Emergency Services Collaboration 2014

Fire Sector issues

Sir Ken Knight's [Facing the future review](#), published in 2013, set out a compelling argument for fast and radical transformation in the delivery of fire and rescue services. Sir Ken was clear about the potential he saw for greater collaboration with the other blue lights services.

In July 2014, the Secretary of State set out the government's approach to meeting the opportunities and challenges highlighted by Sir Ken. A key priority was to encourage and support greater collaboration between fire and local authorities, and between fire, police and ambulance services to deliver better outcomes for the public.

The Emergency Services Collaboration Working Group was formed in September 2014. By providing strategic leadership, coordination and an overview across England and Wales, the group aims to improve emergency service collaboration. They reported to the Blue Light Innovation Conference in November 2014.

What Makes Collaboration Successful?

- From speaking with strategic leads and programme managers across the country, it was determined that the following characteristics feature in successful collaboration projects:
- 'We can pick up the phone': strong, open and honest relationships between the services' chief officers.
- 'Clarity together from the outset': agreement of a strategic vision that aligns tightly with all the collaborating services' strategic goals.
- 'We've got our best person': highly skilled and motivated programme manager from each service, with a balance of skills relevant to change management across the working group.
- 'Tell them how it is': open, consistent communication and consultation with staff from the very earliest opportunity.
- 'Fail fast': willingness to abandon opportunities if politics or operational interests do not align, to avoid losing momentum or jeopardising relationships.
- 'Give not take': an agreement that all parties will not seek to profit from one another; every service cannot benefit in every instance; if collaborative relationships are strong and improved public service remains the priority, savings will follow.

Challenge question

Do members understand how collaboration is being driven through the strategic plan and how funding for initiatives can be secured?

Independent Commission into Local Government Finance

Local government issues

The Independent Commission on Local Government Finance was established in 2014 to examine the system of funding local government in England and bring forward recommendations on how it can be reformed to improve funding for local services and promote sustainable economic growth. It published its final report, [Financing English Devolution](#), on 18 February 2015.

The report notes that the core of the Commission's proposition is the devolution of powers, funding and taxes to sub-national entities over a 10 year period. They estimate that this could lead to over £200 billion in public expenditure being controlled at a sub-national level. The expectation is that councils and their partners would work collaboratively to manage differences in capacity and resources. They see local areas becoming self sufficient.

The Commission advocates a 'variable speed' approach to reform with 'Pioneers' able to and wishing to reform at a faster pace. Reforms advocated for all authorities include:

- An independent review of the functions and sustainability of local government in advance of the next spending review
- Freedom to set council tax and council tax discounts and full retention of business rates and business rates growth
- Multi-year financial settlements
- The ability to raise additional revenue through the relaxation of the rules on fees and charges

'Pioneer' authorities would also implement:

- Single placed-based budgets for all public services
- Management of funding equalisation across a sub-national area
- Further council tax reforms including the ability to vary council tax bands and undertake revaluations
- Newly assigned and new taxes such as stamp duty, airport taxes and tourism taxes
- The establishment of Local Public Accounts Committees to oversee value for money across the placed-base budget.

Challenge question

Is a Member briefing planned by your Strategic Enabler of Finance and Resources on the key findings of the Independent Commission's final report?

Inclusion of overtime in the calculation of holiday pay

Accounting and audit issues

The Employment Appeal Tribunal (EAT) has delivered its judgement on the extent to which overtime pay should be included in the calculation of holiday pay. This case stems from an apparent conflict between UK law and European Law.

The EAT found that non-guaranteed overtime (i.e. overtime, which is not guaranteed by the employer, but which the worker is obliged to work, if it is offered), should be included in the calculation of holiday pay. Back-dated claims can only be made if it is less than three months since the last incorrect payment of holiday pay.

It is likely that there will be an Appeal to this decision. However that does not mean that authorities should hold off assessing the impact. Local authorities should be considering their own circumstances and if necessary taking their own legal advice as to the extent they might be affected by the ruling. If an authority is going to be affected they need to assess whether the liability can be reliably measured.

For an authority likely to be affected in a material way, where it is possible to reliably measure that liability, then appropriate provision should be made in the 2014/15 accounts. The fact that the issue might go to Appeal at some uncertain time in the future is not of itself grounds for not including a provision. The chances of any success would need to be taken account of in the legal analysis but, in any case, there are some indications that the key issue on Appeal would be whether to remove the three month cap (if this were done then the provision would increase), rather than dismissing the entire decision to include overtime in the calculation of holiday pay.

Challenge question

- Has your authority considered the impact of this EAT judgement and is it considering including a provision in the 2014/15 accounts?



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