

# Annual Audit

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# Letter

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West Midlands Fire and Rescue Authority

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Audit 2008/09

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December 2009

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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Key messages

**This report summarises the findings from my 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

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## Financial statements audit

- 1 The FRA has sound arrangements for production of its annual accounts. I issued an unqualified opinion on the Authority's annual accounts in September 2009, before the local government deadline. There were a small number of errors in the accounts but none of such significance that they impacted upon my opinion. I concluded that the accounts gave a true and fair view of the FRA's financial affairs.

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## Financial standing

- 2 The last year has seen the country enter a significant economic recession. The consequences of the recession provide a significant challenge for public bodies as they seek to continue to provide services to local residents, whilst maintaining a sound financial position. The FRA has for a number of years focused on attaining a sustainable financial position. Its previous efficiency savings and strong reserves and balances have allowed the establishment of a financially stable organisation. It has already begun to plan for 2010/11 and to consider the longer term impacts of the recession.
- 3 I consider that the FRA is reasonably well positioned to manage the challenges of the recession. However, I highlight below, in the Use of Resources assessment, the key actions I consider necessary to retain the FRA robust financial position.

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## Use of resources

- 4 For 2008/09 I assessed the FRA as 'performing adequately' in its arrangements for Managing Finance and as 'performing well' in its arrangements for Managing Resources and Governing the Business. My key findings for the three areas are as follows.
  - Managing Finance - performing adequately; as highlighted above the FRA has a good track record of financial management with a strong level of balances and reserves. Areas for improvement include the need for a detailed three-year financial plan which sets out its finances for the future. The FRA also needs to improve its understanding of its cost base and value for money provided by individual services.

- Governing the business - performing well; the FRA has appropriate arrangements in place for governing its business. Areas of particular strength include the clarity of its strategic direction and focus on community needs, methods for purchasing supplies and services, and the structures, policies and procedures used to ensure the effective running of the FRA. The FRA has also strengthened its risk management processes during the year but continued action is necessary to ensure these processes are effective.
  - Managing resources - performing well; the FRA has appropriate arrangements in place to ensure a productive and skilled workforce. For example, it has detailed training plans in place and has undertaken a number of initiatives to improve productivity, for example, by reducing sickness levels. It has also been effective at increasing the number of women working in the service. However, the lack of a detailed workforce plan is a clear area for improvement and further action is necessary to ensure the Authority meets National Framework targets for improving the diversity of its workforce.
- 5 Overall, the FRA has continued its progress from the assessment made in 2007/08 and has performed creditably against this new and more demanding assessment. However, the FRA needs to ensure that it sustains the progress made and makes significant progress in the areas highlighted above.

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### Value for money conclusion

- 6 I am required to conclude whether the FRA 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 conclusion. I issued an unqualified opinion stating that the FRA had appropriate arrangements to secure economy, efficiency and effectiveness in the use of resources.

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### Organisational assessment

- 7 In October 2009, the FRA received its organisational assessment delivered as part of the Audit Commission's CAA assessment. Overall, the assessment concluded that the FRA is managing its performance well.
- 8 The Audit Commission's detailed findings are set out later in this report.

## Key messages

### Recommendations

<b>R1</b> The FRA should develop a detailed three-year financial plan which includes scenario analysis planning/sensitivity analysis planning. This should clearly link to its strategy and service plans.
<b>R2</b> The FRA should develop a detailed workforce plan that sets out its staffing needs for the next three years. This should clearly link to its strategy and service plans.
<b>R3</b> The FRA should improve its understanding of its cost base and value for money provided by individual services.
<b>R4</b> The FRA should take action to ensure it achieves a workforce that mirrors the ethnic mix of the area.

### Audit fees

- 9** I have now completed the 2008/09 audit. I confirm that the final fee is in line with the fee reported in my original audit plan.

**Table 1 Audit fees**

	<b>Actual</b>	<b>Proposed</b>	<b>Variance</b>
Financial statements and annual governance statement	£59,060	£59,060	0
Value for money/Use of Resources/ Data Quality	£27,677	£27,677	0
<b>Total audit fees</b>	£86,737	£86,737	0

### Independence

- 10** I confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

**Mark Stocks**

**District Auditor (Officer of the Audit Commission)**

December 2009

# Financial statements and annual governance statement

The Authority's financial statements and annual governance statement are an important means by which the Authority accounts for its stewardship of public funds.

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## Financial statements Audit

- 11 The FRA has sound arrangements for production of its annual accounts. I was able to issue an unqualified opinion on the FRA's accounts on 28 September 2009 (before the national deadline of 30 September 2009).
- 12 I am pleased to report that the quality of working papers provided by the SHA to support the draft accounts has, in general, been good and that I have received a good level of co-operation and response to queries throughout the audit process.
- 13 I set out below the key issues arising from my audit.

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## Unamended errors in the financial statements

- 14 I identified the following error in the financial statements that the FRA chose not to adjust.
  - The auditors of the West Midlands Local Government Pension Scheme have identified that the value of the total scheme assets as determined by the actuary are overstated by approximately 0.8 per cent. This difference had primarily arisen on the Private Equity, infrastructure and real estate funds where the actual fall in asset values between December 2008 and March 2009 was greater than estimated by the actuary. As such pension assets should be reduced by £264k to £32.8m.
- 15 After considering the level of the error and the approach taken by other Authorities the FRA chose not to amend this balance. The FRA have confirmed that the error in valuation will be corrected in the 2009/10 financial statements.

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## Significant issues arising from the audit

- 16 We reported on the following issues in our ISA 260 report to the Audit Committee prior to the approval of the accounts.

### Valuation of assets

- 17 The FRA carried out an impairment review of its fixed asset during the year. The review highlighted a fall in asset values but also commented that some assets could be undervalued.

## **Financial statements and annual governance statement**

- 18** Accounting standards require that assets to be revalued at least every five years and more frequently where assets are disposed of, values are known to be volatile or a specific event has led to a material change in value.
- 19** Where assets are not appropriately valued this can result in errors in the asset values and in respect to depreciation and impairment charges. Prior to the opinion being given, the FRA's valuers confirmed that they were satisfied that assets were held in the balance sheet at the appropriate value. However, I recommended the FRA put in place a rolling programme of valuations to ensure that valuations are kept up to date.

### **Use of new loans**

- 20** During the year the Authority took out £3.9m as a loan (at an interest rate of 4.36 per cent) from the Public Works Loan Board (via Sandwell MBC) increasing their borrowing.
- 21** In 2008/09 the Authority:
  - paid 6.33 per cent on debt outstanding; and
  - received 5.53 per cent on cash balances held.
- 22** Given the level of cash balances held of £23m, I recommend that the Authority considers whether it should continue to draw down fully against the capital financing requirement.

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### **Material weaknesses in internal control**

- 23** I did not identify any significant weaknesses in the FRA's internal control arrangements. I did identify one area where the Authority could further strengthen its internal control procedures.
  - During the year, I reported concerns that payments over £50,000 were only being authorised by the finance department after payment had been made by the FRA. Our additional testing at the financial statements audit confirmed that whilst retrospective finance approvals continue to be given, in all cases budget holder approval had been given in the first instance. I recommended that the Authority ensures that finance approves these payments prior to them being made.
- 24** The FRA has now reviewed these controls and is monitoring their operation.

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### **Review of the Annual Report**

- 25** I am required to review the FRA's Annual Report. I review the financial elements prior to issuing my opinion and was able to confirm that the financial elements of the annual report, including the remuneration report had been properly prepared and disclosed. I also considered the information which comprises the commentary on financial performance included within the Operating and Financial Review and was able to conclude that this was consistent with the audited financial statements.

- 26 The review process identified some content and presentational issues where I requested amendments to be made, but these were fewer in number and less significant than the previous year. These amendments were made prior to the publication of the annual report.

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### Financial standing

- 27 The last year has seen the country enter a significant economic recession. The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these provide a significant challenge for public bodies as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.
- 28 The FRA has for a number of years focused on attaining a sustainable financial position. Its previous efficiency savings and strong reserves and balances have allowed the establishment of a financially stable organisation. It has already begun to plan for 2010/11 and consider the longer term impacts of the recession.
- 29 Nevertheless, as outlined in my Use for Resources assessment further action is necessary by the FRA including the establishment of a clear long term financial plan linked to its strategy, and service and workforce plans. This should include efficiency plans and scenario plans of the actions to be taken if the FRA receives different levels of funding to those anticipated. A greater understanding of the unit costs and value for money of services also needs to be gained to allow the FRA to make its decisions based on a clear understanding of the impact and value of each service.
- 30 The impacts of the recession will continue to present a challenge to the FRA in the coming financial year. I will continue to monitor the FRA's response and actions in this key area.

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### Treasury management

- 31 Following the financial losses made by a number of public bodies effective Treasury Management has taken on an increased profile. During the year I considered the arrangements put in place by the FRA.
- 32 The FRA does not directly undertake treasury management activities. These are undertaken on its behalf by Sandwell Metropolitan Borough Council. The 'cash resources' held by the FRA are pooled for investment purposes with those of Sandwell MBC, and interest is paid to the FRA on the average cash balance held. Any losses (should they arise) are also shared according to the investment each body has in the pool. Treasury Management reports are taken to the Sandwell MBC cabinet and are also provided to the FRA for information. Sandwell MBC employs specialist external treasury management consultants and as part of the service provided to the FRA, weekly updates are received directly from the consultants by the Fire Service Finance Management Section. These arrangements appear appropriate.

## **Financial statements and annual governance statement**

- 33 I note that the FRA has not directly set its own treasury management strategy, treasury management policy, or risk profile for investments. Rather it used the strategy set by Sandwell MBC. Due to the high risk nature of these investments I recommend that the FRA reviews and considers the appropriateness of the strategy, policies and risk profile adopted by Sandwell MBC.

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### **National Fraud Initiative**

- 34 The National Fraud Initiative is a data matching exercise that compares sets of data to identify inconsistencies or other circumstances that might indicate fraud or error. It also helps auditors to assess the arrangements that audited bodies have put in place to deal with fraud. The referrals from the current exercise were released to participating bodies in early 2009.
- 35 The FRA Internal Auditor has undertaken work to risk-assess the matches identified from the 2009 data. Work has then been undertaken to understand the reasons for these matches. The work to date has concluded that there have been no significant instances of fraud at the FRA. This has been reported to the Audit Committee.

# Value for money and use of resources

I considered how well the Authority is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Authority put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

## Use of resources judgements

- 36 In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 37 I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 38 The Authority's use of resources theme scores are shown in Table 2 below.

**Table 2      Use of resources theme scores**

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	3
Managing resources	3

## **Value for money and use of resources**

39 The key findings and conclusions for the three themes were as follows.

### **Managing finances - assessment - level 2**

40 The FRA has a good track record of operating within its budget while maintaining good service performance. It has a high level of reserves and a medium term financial plan (MTFP) - although the MTFP is at a higher level than I would expect. Its MTFP indicates financial stability over the medium term. The net cost of services is good in the context of high deprivation. The level of funding from council tax is low compared with others. The comparative net cost and greater efficiency savings have been achieved while improving overall service performance.

41 The FRA has been able to improve service performance while delivering efficiency savings and maintaining a cost base comparable to its peer group. There is also some evidence that resources follow priorities within the FRA. In particular, the FRA increased its focus on prevention and has significantly increased the resources allocated to areas such as Home Fire Safety Checks (HFSC). The FRA is also in the process of developing a draft value for money strategy.

42 Budget monitoring and forecast information is reliable, relevant and understandable. Reports are produced within five days of month end, allowing for timely corrective action where necessary.

43 Improvement is needed in demonstrating appropriate outcomes against the levels of finance and other resources invested in services, and in demonstrating value for money. Other areas for development are:

- developing a detailed three-year financial plan which includes scenario analysis planning/sensitivity analysis planning;
- better integration of financial and performance planning and reporting;
- demonstrating engagement with partners and local communities in financial planning;
- demonstrating a clear understanding of its cost base and the unit costs of services;
- demonstrating costs and effectiveness of its services such as prevention based activity, and shift systems/crewing arrangements; and
- ensuring environmental strategy performance measures are developed and reported against.

### **Governing the business - assessment - level 3**

44 The FRA has appropriate arrangements for the commissioning of services. It invests in understanding the needs of its communities (so that it can commission appropriately), and also involves local people and partners in commissioning services. The FRA also has an appropriate approach to procuring services and supplies. The current procurement strategy is widely communicated and is used to make financial savings. For example, using the FiRebuy national framework agreement a mini tender procedure for the replacement of Respiratory Protective Equipment (RPE) has been undertaken.

- 45 The FRA has good arrangements for ensuring its data is reliable and our spot checks indicate that data is accurate. It also uses data well to improve service performance. A robust performance management system is in place with a 'golden thread' from the corporate plan through to individual objectives. Performance is reported at the quarterly Lead Member meeting. Action plans support the achievement of key objectives. Councillors provide robust scrutiny on data quality indicators and larger partnership arrangements have data quality arrangements built into them.
- 46 The FRA promotes and demonstrates the principles and values of good governance. Its leadership has a vision of what it wants to achieve for its local communities, founded on a robust assessment of local needs. This has been effectively communicated to staff and other stakeholders. Policies and procedures are in place to support good governance and these have been communicated to staff and members. The Authority is active in raising the standards of ethical conduct, for example, via ethics training.
- 47 During 2008/09 the FRA had only an adequate approach to risk management. For the majority of the year it had a corporate risk register which identified only five high level risks. Many of these were not specific to the FRA. The FRA is aware of these issues and has introduced a new corporate risk register from December 2008. These are linked to strategic objectives and the authority is embedding its risk management processes. Risk management of partnerships remains at an early stage. Internal control and counter fraud and corruption arrangements are adequate.
- 48 The FRA should strengthen its management of its resources by, for example:
- identifying opportunities for joint commissioning of services with partners;
  - ensuring that data quality is seen as important throughout the FRA and that there is a 'right first time' culture;
  - regularly reviewing the effectiveness of its partnership working to ensure that all partnerships are providing effective outcomes and value for money;
  - reviewing risks within the risk register to ensure they are specific to the Authority;
  - ensuring that the risk management reports are used to develop risk reduction strategies, plans and training; and
  - strengthening internal control, for example, in relation to long term financial planning and treasury management.

### **Managing resources - assessment - level 3**

- 49 The FRA has appropriate arrangements to ensure that it has a productive and skilled workforce. For example:
- training and development includes operational and people development and aims to create realism in training such as fire behaviour units;
  - IPDS is well established and operational training plays a strong part; and
  - succession planning and talent management is developing.

## Value for money and use of resources

- 50 The FRA also has an appropriate approach to ensuring that its workforce is productive. For example, the FRA has achieved productivity gains by introducing late night shifts running from 10am to 10pm. The FRA is also using volunteers to enable it to enhance service provision and Safeside (a public educational facility) is mainly staffed by (100) volunteers. The FRA has a comprehensive policy designed to reduce sickness absence which reduced to 5.4 days in 2008/09.
- 51 The lack of a clear long term workforce plan is a significant weakness. However, I note that a Medium Term Service Plan has recently been drafted and although the workforce plan has not yet been produced, there are milestones in the 2009/10 action plan. A clear workforce plan should be developed as a matter of urgency.
- 52 The authority works hard to involve staff in its decisions and change management processes. For example, during April 2008, members of the Authority facilitated Have Your Say and the visioning process named 4D was attended by all levels of staff.
- 53 Equality impact assessments are comprehensive and Level Three of Equality Standard has now been achieved. Recruitment rates for women were 20 per cent which is above the level required in the national Equality & Diversity Strategy. However, minority ethnic recruitment is low (8.3 per cent) compared with the 30 per cent representation in the area, though there has been little recruitment during the year. Workforce plans do not have targets for equality and diversity across all strands of the equality standard.
- 54 Improvement is needed in a number of areas. The key areas for action are:
- the development of a clear medium term workforce plan; and
  - ensuring action plans are in place to achieve the required a workforce that mirrors the ethnic mix of the area.

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## VFM conclusion

- 55 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 56 I issued an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

# Managing performance and organisational assessment

## Managing performance

- 57 The Audit Commission also assesses how well the FRA manages and improves its services and contributes to wider community outcomes. The assessment considers how successful the FRA is in delivering its corporate priorities. The priorities have been drawn from what matters most to local people.
- 58 The FRA scored 3 out of 4 for managing its performance (the scoring mechanism is as for Use of Resources). The key findings from the review are set out below in the Organisational Assessment which combines both the Use of Resources score and the Managing Performance Score.

## Organisational assessment

- 59 In October 2009, the Authority received its organisational assessment delivered as part of the Audit Commission's CAA assessment. I have set out the key findings from the assessment below.
- 60 The FRA is managing its performance well and providing good value for money.
- 61 The West Midlands is becoming safer from fire. Arson is greatly reducing. Public satisfaction is high. The number of house fires and injuries has reduced. The number of house fires is midway with metropolitan authorities but high compared with the rest of England.
- 62 The FRA is showing commitment to improve safety through its priority 'Communities and Partnerships'. Successful community safety activity is delivered both in partnership and independently and this is based upon a good understanding and knowledge of the area. In particular, targeting of home fire safety work towards the more vulnerable is good. Partnership activity is delivering positive outcomes in those areas of focus within the seven local area agreements (LAA) that the FRA participates in. For example, targets in the Birmingham LAA to reduce road traffic related deaths and injuries. However the evaluation of community safety schemes is not consistent and the reduction in community risk is not always clear.
- 63 The fire and rescue authority's approach to securing value for money is good. The net cost of services is good in the context of high deprivation. The level of funding from council tax is low compared with others. Savings have been lower than other metropolitan authorities over the last two years. Financial management is good.

## Managing performance and organisational assessment

- 64 The fire and rescue authority is well prepared to respond to emergencies. Focus on operational training is better although it is less accessible to the late shift. Attendance times are generally good, have been reviewed and targets improved recently. Arrangements are in place to ensure good data quality. Steady progress is being made in implementing many aspects of the requirements of the Fire and Rescue Service National Framework 200811. The FRA has a strong health and safety culture resulting in fewer accidents Officer leadership is settling down after changes during the year and political leadership is being more fully integrated into developing the way forward. The 2008/09 proposals for improving the location of fire stations which involved closing ten stations and building eight new ones did not lead to any station closures. Engagement with staff is becoming more effective. Internal functions such as human resource management are improving. The approach to diversity and equality is improving with level 3 of the Equality Standard achieved this year. However, recruitment of operational staff representative of the community, albeit in a year with little recruitment, has been less successful. Plans to improve are more coordinated.
- 65 As part of the Comprehensive Area Assessment, the full text relating to the Authority will be available from the 10 December 2009 on the Oneplace website, [www.oneplace.direct.gov.uk/Pages/default.aspx](http://www.oneplace.direct.gov.uk/Pages/default.aspx).

# Closing remarks

- 66 I have discussed and agreed this letter with the Chief Fire Officer and the Treasurer. I will present this letter at the Audit Committee on 11 January 2010 and will provide copies to all committee members.
- 67 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Authority during the year.

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Table 3

Report	Date issued
Audit Plan 2008/09	March 2008
Interim Report	June 2009
Annual Governance (ISA 260) Report	September 2009
Use of Resources Report	November 2009

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- 68 The Authority has taken a positive and constructive approach to our audit. I wish to thank the Authority staff for their support and co-operation during the audit.

Mark Stocks  
District Auditor

December 2009

# Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	R1 The FRA should develop a detailed three-year financial plan which includes scenario analysis planning/sensitivity analysis planning. This should clearly link to its strategy and service plans.	High	The Director Finance and Procurement	Yes		October 2010
5	R2 The FRA should develop a detailed workforce plan that sets out its staffing needs for the next three years. This should clearly link to its strategy and service plans.	High	Director of Human Resources	Yes	This work has already started.  Due to the uncertainty created by the current economic and political climates the plan will cover a period of up to 18 months.	October 2010
5	R3 The FRA should improve its understanding of its cost base and value for money provided by individual services.	Medium	Deputy Chief Fire Officer	Yes	This work will be encompassed within the Service's organisational improvement programme.	October 2010
5	R4 The FRA should ensure that it has in place an appropriate recruitment strategy that aspires to the achievement of its specific 2013 targets as set out in the Equality and Diversity Strategy and the Fire and Rescue Services National Framework.	Medium	Director of Human Resources	Yes		April 2013

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# The Audit Commission

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As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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