

The Annual Audit Letter for West Midlands Fire & Rescue Authority

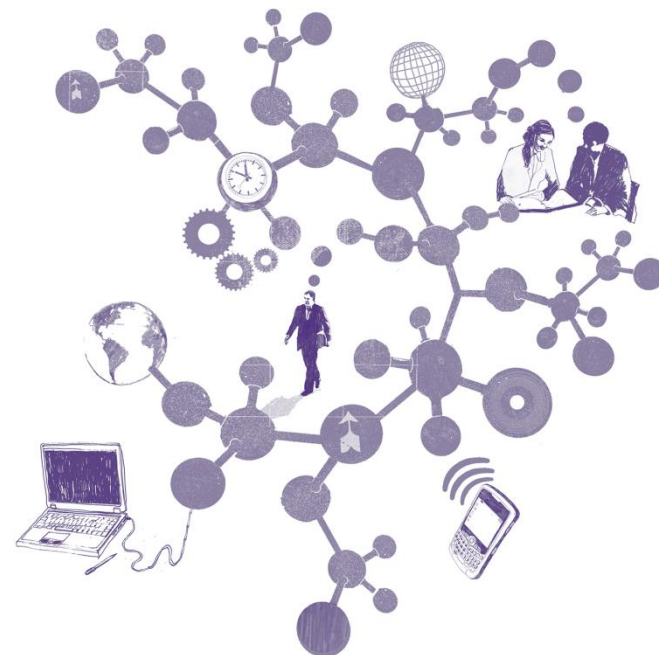
Year ended 31 March 2015

October 2015

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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 2015.

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 23rd March 2015 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 and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)

We issued an unqualified opinion on the Authority's 2014/15 financial statements on 23 September 2015, 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 21 September 2015 to the Fire Authority. The key messages reported were:

- We received draft financial statements and accompanying working papers on 22 June, in accordance with the timetable set by the Authority and ahead of the National deadline of 30 June 2015.
- The financial statements submitted for audit were yet again of good quality, delivered by an effective closedown process and supported by excellent working papers.
- Of particular note was the speed and efficiency queries were responded to by Authority staff across all departments.
- We did not identify any adjustments affecting the Authority's reported financial position. Both the draft and audited financial statements record Total Comprehensive Income and Expenditure as net expenditure of £104.198 million.
- We did identify a relatively small number of disclosure errors, and requested some adjustments to improve the presentation of the financial statements.
- The Authority accounted for the grant under section 31 of the Local Government Act of £2.945 million to purchase smoke alarms and CO detectors correctly. As the funding enabled the alarms and detectors to be distributed to all Fire & Rescue Authorities as per the agreed allocation this was accounted for on an agency basis.
- The Pension Ombudsman determined in July 2015 that the calculation of pensioners' lump sum amounts on commutation since 1998 was not based on the right actuarial data. The Government Actuary's Department issued guidance in respect of the Firefighters' Pension Scheme (England): 1992 Scheme to enable each Fire Authority to calculate the impact for their 2014/15 accounts. This decision was made after the Authority had prepared its draft financial statements. This constitutes an adjusting post balance sheet event. The Authority put a £5.0 million adjustment which impacts the balance sheet disclosures for provisions, pensions top up grant and contingent liabilities.

Key messages continued

Value for Money (VfM) conclusion	<p>We issued an unqualified VfM conclusion for 2014/15 on 23 September 2015. Key findings reported to the Authority are:</p> <ul style="list-style-type: none"> • The General Fund stands at £9.231 million at the 31 March 2015. Whilst this is an increase on the opening balance the Authority has made appropriate movements to earmarked reserves as well to cover financial liabilities and risks going forward. The General Fund balance is in line with the financial strategy. Reserves are at a generally high level and are not used to subsidise the day to day transactions of the Authority. • The authority continues to use a 3 year corporate plan as a basis for planning and delivering objectives. This plan links the three objectives of prevention, protection and response. Review of this plan confirms that the Authority's overall priority is to maintain response times to 999 calls at 5 minutes for those incidents that are most life critical. All other parts of the strategy support this whilst also linking to the prevention and protection elements, making the 5 minute response time the 'golden thread' which drives all strategic priorities • The Authority has demonstrated a drive and commitment to making changes in response to the recent reductions in Government funding. There is an understanding of the current financial position of the Authority and finance is a continuing thread evidenced through all elements of the corporate plan. • The Authority has a strong cash flow and delivers a balanced budget each year. Earmarked reserves are used where cash has been held back for projects put on hold whilst decisions on the wider delivery of the service are made. • The Corporate Plan determines the overall use of resources within the Authority, outlining the strategic direction for the Authority over a 3 year period. This includes the Key Priorities, Outcomes and Strategic Objectives. Staff interviewed considered that there has been a tangible shift in the culture of the Authority in the past few years. • The overall strategy is clear and the decisions which are being made are consistent with it. Some service redesign has already been delivered successfully and the Authority has learned from this experience. There is considerable uncertainty surrounding the future service delivery of the Fire Service, both in the West Midlands, Regionally and Nationally. • Specifically identified as a risk for the Authority and overarching all areas of the Audit Commission's risk areas, we have reported separately. Whilst arrangements are developing in this area, the present arrangements do not present a risk to the Authority at this stage. <p>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 Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.</p>
Whole of Government Accounts	<p>We reviewed the consolidation pack which the Authority prepared to support the production of Government's 'Whole of Government' Accounts. In line with our instructions we reported that the Authority 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 & equipment and Pensions liabilities in the consolidation pack were consistent with those in the Authority's financial statements on 23 September 2015 in advance of the deadline.</p>
Audit fee	<p>Our fee for 2014/15 was £51,515, excluding VAT which was in line with our planned fee for the year. Further detail is included within appendix B. This includes work for the opinion, value for money conclusion, whole of government accounts and our reporting to those charged with governance.</p>

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>Weak password access controls for Oracle EBS</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>Recommendation</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> <ul style="list-style-type: none">the 'maximum password age' value within Active Directory should be between 30-60 daysthe 'account lockout threshold' should be set to between 3-5 attempts.	Medium	<p>Management response: Agreed</p> <p>Responsible office: Strategic Enabler of Information & Communications Technology</p> <p>Due date: January 2016</p>
2.	<p>IT policies and procedures</p> <p>There is no documented Change Management Policy in place for IT system changes and no documented evidence of the controls implemented for the changes that have taken place on the network and applications during the year. This was also raised as a finding in 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>Recommendation</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. IT should implement and maintain formal procedures for the change management process which will describe how they will deal with both minor and major changes and ensure traceability is maintained throughout.</p>	Medium	<p>Management response: Agreed</p> <p>Responsible office: Strategic Enabler of Information & Communications Technology</p> <p>Due date: November 2015</p>

Appendix A: Key issues and recommendations (continued)

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
3.	<p>Excessive number of domain administrators</p> <p>There is a high number of employees who are 'powerful domain administrators', enabling them to perform a wide range of system functions. This is seen as an abnormally high in relation to the number of users. There is a risk that individuals could override system controls, either deliberately or by accident. In addition information assets within the organisation may not be adequately secured against unauthorised or inappropriate access.</p> <p>Recommendation: Membership of the domain administrators group should be regularly reviewed and restricted to only those trained staff with a requirement to have this level of privilege.</p>	Medium	<p>Management response: Agreed – work is on-going to reduce the number of users with domain administration access.</p> <p>Responsible office: Strategic Enabler of Information & Communications Technology</p> <p>Due date: January 2016</p>
4.	<p>Information Security policies and procedures</p> <p>The IT security policy has not been formally reviewed or updated since its establishment in September 2010. Lack of controls create the following risks:</p> <ul style="list-style-type: none"> a) Security administration processes and control requirements may not be formalized, understood by, or communicated to those within the organization responsible for observing and/or implementing them b) Effectiveness of security administration processes and controls may be diminished due to environmental and/or operational changes c) Information security processes, requirements and controls may be inconsistently defined, understood and implemented throughout the organization. d) The lack of formal (documented) information security requirements may make sanctioning employees for inappropriate use of information resources more difficult. For example, a user who caught sharing personal passwords with other employees may be able to claim ignorance of any wrongdoing as this action did not violate any organizational policy documents. <p>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>Management response: Agreed</p> <p>Responsible office: Strategic Enabler of Information & Communications Technology</p> <p>Due date: January 2016</p>

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees services

	Per Audit plan £	Actual fees £
Authority audit	51,515	51,515
Total audit fees	51,515	51,515

Fees for other services

Service	Fees £
Audit related services	Nil
Non audit related services	Nil

Reports issued

Report	Date issued
Audit Plan	March 2015
Informing the Risk Assessment	March 2015
Audit Findings Report	September 2015
VfM Detailed Report	September 2015
Annual Audit Letter	October 2015

Appendix C: How we have worked with you during the year

Audit Committee Members

We:

- provided assurance on financial reporting and financial resilience by giving a timely audit opinion and value for money conclusion
- shared our thinking on key issues, including issuing members and management with our annual reports on Governance and Financial Health (Tipping Point) and our reports on Pensions Governance, Alternative Delivery Models, High Growth Index and 2020 Vision
- ran training for local government audit committee members that was attended by your audit chair
- met regularly with the Audit Committee to ensure you were kept up to date with the audit progress, as well as emerging issues affecting the wider Local Government Sector
- invested in regular dialogue with the audit committee to ensure there were no surprises and to maintain a robust and independent stance
- provided regular, timely and transparent reports from our work and briefing notes on key sector developments

Other Councillors

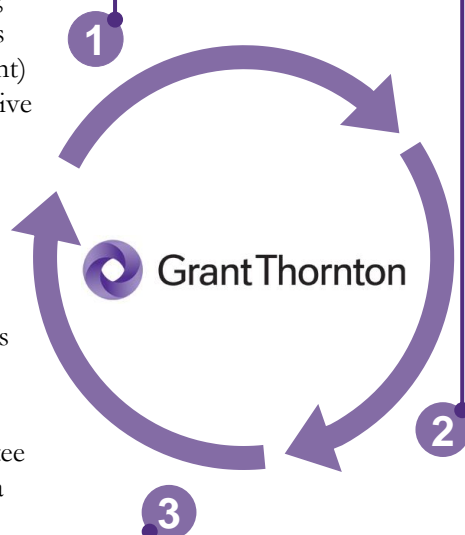
We:

- attended the annual authority meeting to approve the financial statements

Strategic Enabling Team

We:

- ensured a smooth external audit process through regular dialogue and meetings to promptly discuss financial accounts opinion audit and Whole of Government Accounts work to ensure you submit accurate figures to central government
- met regularly with the members of the Strategic Enabling Team to discuss some of your major challenges, share our insight into national fire sector issues and provide support where possible
- introduced Taxation and Pensions colleagues who specialise in Fire & Rescue issues to provide tailored support in key areas
- worked with the finance department to further improve the accounts production process and to strengthen controls and systems
- engaged early on audit requirements reflecting our engagement and partnership working with finance including making recommendations to strengthen controls and systems where appropriate
- provided early support for the accounting for smoke alarms and CO detectors
- provided an opportunity to network with other Local Government bodies at our annual finance seminar
- shared our understanding of some of the key issues facing Local Government through our thought leadership reports covering Alternative Delivery Models, Financial Sustainability in Local Government, Devolution, Governance and Financial Resilience
- arranged a "Fire Summit", attended by some of your officers to help spread good practice across the fire sector and produce a think pieces on staffing and procurement for sharing across the sector
- shared technical knowledge, provided early warning on key risks and provided an opportunity to network with other Local Government bodies at our workshops covering taxation issues, building a successful local authority trading company, and 20:20 vision.





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