

Annual Governance Report

West Midlands Fire and Rescue Authority

Audit 2009/10

September 2010

Contents

Key messages	4
Next steps	6
Financial statements	7
Value for money	9
Glossary	10
Appendix 1 – Independent auditor’s report to Members of West Midlands Fire and Rescue Authority	12
Appendix 2 – Amendments to the draft accounts	16
Appendix 3 – Draft letter of representation	18
Appendix 4 – Value for money criteria	21

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.
-

Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Chief Fire Officer and Director of Finance and Procurement and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (page 7)
- take note of the adjustments to the financial statements set out in this report (Appendix 2); and
- approve the letter of representation on behalf of the Authority before I issue my opinion and conclusion (Appendix 3).

Yours faithfully

John Gregory
District Auditor

Date

Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my 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.

Financial statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements free from material error	Yes	7
Adequate internal control environment	Yes	7
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	9

Audit opinion

- 1 I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Financial statements

- 2 Subject to satisfactory clearance of outstanding matters, I plan to issue an unqualified opinion on the financial statements. The issues outstanding are noted below.
 - Because some of your key financial systems are operated on your behalf by Sandwell MBC, we obtain assurances each year about the operation of those systems from the auditors of Sandwell MBC. We are awaiting the assurances in respect of 2009/10.
 - Because your accounts include information in respect of the local government pension scheme which is derived from the accounting records of the scheme, we obtain assurances each year from the scheme's auditors. We are awaiting these assurances in respect of 2009/10.
- 3 We did not identify any material errors during the course of our audit and there were few non-material errors. Where we identified errors, other than those of a clearly trivial nature, officers have corrected them.

Key messages

Value for money

- 4 I propose to issue an unqualified value for money conclusion. Appendix 1 contains a copy of my draft audit report.

Audit fees

- 5 We expect to deliver the audit to the agreed audit fee of £87,850 for 2009/10.

Independence

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

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

7 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (page 7);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2); and
- approve the letter of representation on behalf of the Authority before I issue my opinion and conclusion (Appendix 3).

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As Authority members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 8** Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
-

Errors in the financial statements

- 9** We did not identify any material errors during the course of our audit and there were few non-material errors. Where we identified errors, other than those of a clearly trivial nature, officers have corrected them. These amendments to the accounts are listed in Appendix 2.
-

Other financial reporting issues

- 10** The Authority is required to analyse its loans in its accounts between those which are repayable within one year and those which are repayable over a longer period. The Authority has been unable to comply with this requirement and all loans are shown in the balance sheet as being liable to be repaid after longer than one year. The Authority's treasury management function is undertaken by Sandwell MBC, and loans cannot be separately identified for WMFRA. However the Authority has now requested that all future loans be in the name of WMFRA. Future loans will therefore be separately identifiable and the required analysis will be available.
-

Key areas of judgement and audit risk

- 11** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.
-

Table 1 **Key areas of judgement and audit risk**

Issue or risk	Finding
Fixed Asset valuations. The Authority undertook a full valuation of land and buildings for 2009/10, which we expected to lead to material movements in valuations because it was five years since the previous full valuation	Valuations were undertaken and no issues have been noted. We carried out additional procedures to ensure the validity of the new valuations.
The Authority places reliance on the Sandwell MBC ledger to accurately carry forward balances. At our interim visit we were unable to check accuracy of brought forward balances due to the nature of the system.	Our subsequent work confirmed that balances were correctly brought forward.
The weaknesses in journal controls which we reported to you last year were still in place when we carried out our initial testing this year. Controls have since been strengthened.	We increased our sample testing and no issues have been noted.
The 2009 SoRP changes the accounting treatment of council tax. The changes recognise that billing authorities act as agents for major precepting authorities. Major precepting authorities (such as WMFRA) must now account for the amount of council tax billed on their behalf.	Our work has revealed some areas where the change had not been reflected correctly as noted at Appendix 2. The accounts have now been amended.

Letter of representation

- 12** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

Value for money

I am required to decide whether the Authority put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

Value for money conclusion

- 13 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 4.
- 14 I intend to issue an unqualified conclusion stating that the Authority has adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.
- 15 The Authority has continued to develop its arrangements for ensuring economy, efficiency and effectiveness. Developments since last year which we have taken into account in reaching our conclusion include:
 - improvements to your strategic financial planning, with better links to service planning and enhancements to your medium term financial plan; and
 - improvements to your risk management arrangements, including extension of these arrangements into your partnership working and ensuring that risk management is a key part of your normal business processes.
- 16 While we have judged that your arrangements are adequate in all areas, we have identified a number of areas where further improvements should be made.
 - Further development of your approach to assessing and improving efficiency, ensuring that some of the more recent developments such as the VFM strategy and the Evaluation model work effectively.
 - In making your financial plans, engage more fully with partners, local communities and other stakeholders.
- 17 One area of your arrangements which we reviewed for the first time this year was your use of natural resources. We found that you have appropriate strategies in place with some clear targets in relation to, for example, energy consumption and recycling. You have been working closely with the Carbon Trust on a carbon management programme and partnership working with other relevant organisations is good. Action has been taken to engage staff with the environmental agenda and a wide range of initiatives has been taken across the organisation. The outcomes of many of these initiatives have been evaluated. More work is needed to ensure that baselines are measured and targets set across all key areas, with more systematic monitoring and challenging of performance.

Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 – Independent auditor’s report to Members of West Midlands Fire and Rescue Authority

Independent auditor’s report to the Members of West Midlands Fire Authority

Opinion on the accounting statements

I have audited the accounting statements, the firefighters’ pension fund accounting statements and related notes of West Midlands Fire Authority for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement, and the related notes. The firefighters’ pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The accounting statements and firefighters’ pension fund accounting statements have been prepared under the accounting policies set out within them.

This report is made solely to the members of West Midlands Fire Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Treasurer and auditor

The Treasurer’s responsibilities for preparing the accounting statements, including the firefighters’ pension fund accounting statements, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

Appendix 1 – Independent auditor’s report to Members of West Midlands Fire and Rescue Authority

I report to you my opinion as to whether the accounting statements, the firefighters’ pension fund accounting statements and related notes give a true and fair view, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial transactions of its firefighters’ pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, the firefighters’ pension fund accounting statements and related notes and consider whether it is consistent with the audited accounting statements, the firefighters’ pension fund accounting statements and related notes. This other information comprises the Explanatory Foreword and the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements, the firefighters’ pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements, the firefighters’ pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements, the firefighters’ pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements, the firefighters’ pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements, the firefighters’ pension fund accounting statements and related notes.

Opinion

In my opinion:

- the accounting statements and related notes give a true and fair view, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended; and
- the firefighters’ pension fund accounting statements give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the firefighters’ pension fund during the year ended 31 March 2010 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for fire and rescue authorities published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for fire and rescue authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, West Midlands Fire and Rescue Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Appendix 1 – Independent auditor’s report to Members of West Midlands Fire and Rescue Authority

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

John Gregory
Officer of the Audit Commission

[Date]

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and officers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 2

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Restatement of prior year. Changes were made to the prior year figures for the changed SORP requirements in respect of the collection fund.	The explanatory foreword changed to include detail of this significant change in the accounting policies and the effect on the financial statements as recommended by SORP. The face of the accounts changed to show that prior year balances have been restated by showing an R with an explanation.	N/A	N/A	N/A	N/A
Statement of Accounting Policies to reflect the change in accounting policy for Council Tax.	Accounting policies changed to show the change in policy for accounting for Council Tax and the impact of this change.	N/A	N/A	N/A	N/A
Statement of Total recognised gains and losses	A foot-note added to show the cumulative effect on reserves for the prior period changes made.	N/A	N/A	N/A	N/A
Note 2 - comparative figures did not agree to 2008-09 accounts	To make clear that these have been re-stated by showing 'R' and providing an explanation.	N/A	N/A	N/A	N/A

Appendix 2 – Amendments to the draft accounts

		Income and Expenditure Account		Balance sheet	
Note 22 - Leases	Further Leases added to the leases note as follows: - BTC - Operating - Total Contract Cost £6,300 - Photocopier Lease - TEW - Operating - Total Contract Cost £7,660 - Photocopier Lease - Three leases at peppercorn rent for land at Bickenhill, Stone House Lane and Vauxhall Road.	N/A	N/A	N/A	N/A
Statement of responsibilities for the accounts	Changed to show that now provided a true and fair view (not fairly presents).	N/A	N/A	N/A	N/A
Additional note required	The SoRP requires a note to the accounts where Authorities self insure explaining the arrangements and risk associated with this.	N/A	N/A	N/A	N/A
Additional note required	A post balance sheet note is required to explain the effect of the change in pensions' increases which will now be linked to the consumer price index rather than the retail price index (and as such is likely to mean a reduction in pensions liabilities).	N/A	N/A	N/A	N/A

Appendix 3 – Draft letter of representation

John Gregory
Audit Commission
1011 Stratford Road
Solihull
West Midlands
B90 4EB

West Midlands Fire and Rescue Authority – Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of West Midlands Fire and Rescue Authority the following representations given to you in connection with your audit of the Fire Authority's financial statements for the year ended 31 March 2010. All representations cover the Authority's accounts and pension fund included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Authority and for making accurate representations to you.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Authority meetings, have been made available to you.

Appendix 3 – Draft letter of representation

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Authority.

The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair values

I confirm the reasonableness of the significant assumptions within the financial statements.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by the Authority, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

The Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

Signed on behalf of West Midlands Fire and Rescue Authority

I confirm that this letter has been discussed and agreed by the Authority on 20th September 2010.

Signed

Name

Position

Date

Appendix 4 – Value for money criteria

KLOE	Met
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes
Strategic asset management (not yet assessed)	N/A
Workforce (not re-assessed this year)	Yes

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

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.

Copies of this report

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