



Infrastructure, government and healthcare

Annual Audit Letter 2004/05

West Midlands Fire and Rescue Authority
November 2005

Public Sector Audit

Contents

	Page
1 Executive summary	3
2 Performance management	5
3 Financial aspects of corporate governance	9
4 Audit of the accounts	15

Appendices

- A Summary of recommendations and action plan
- B Follow-up of last year's principal recommendations
- C Summary of the audit

This report is addressed to West Midlands Fire and Rescue Authority ('the Authority') and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The Audit Commission has issued a document called 'Statement of responsibilities of auditors and audited bodies'. This document summarises where the responsibilities of auditors begin and end and what is expected from the audited organisation. We draw your attention to this document.

External auditors do not act as a substitute for the audited organisation's own responsibility for putting in place proper arrangements to make sure that public business is carried out in line with the law and proper standards and that public money is protected and properly accounted for and used economically, efficiently and effectively.

1 Executive summary

At the Authority, you faced a challenging year, with the preparations for your first Comprehensive Performance Assessment, for which you achieved a 'good' rating. The production of a realistic self assessment and subsequent Improvement Plan has helped you to focus your future priorities. Part of this is ensuring that the Authority continues its engagement in local and regional developments. The Authority is making progress in developing its performance and risk management arrangements with the development of departmental and commander Action Plans and the production of a risk management policy. Work has begun on establishing a more cohesive approach to partnership working supported by the new partnership guidance. You need to continue to prioritise activities to focus resources on the key areas to help deliver against priorities and key targets.

This letter reflects our responsibilities under the Code of Audit Practice (the Code). This requires us to consider and assess the relevant significant operational and financial risks that apply to the Authority and the arrangements it has put in place to manage these risks. The result is greater emphasis on ensuring that our work is tailored to the circumstances of the Authority and audit effort directed to those areas of greatest risk.

The Code also stresses that each part of the audit needs to be viewed in the context of the whole. No one part stands alone, and work in relation to one element of the audit informs work in relation to other elements. The above is summarised in the Audit Commission's audit model. We have specific responsibilities in respect of performance management, financial aspects of corporate governance and audit of accounts.

CPA and Improvement Planning

2004/05 saw the introduction of CPA. CPA is an assessment, at the corporate level, of how well the Authority is being run. It does not give an opinion on how well the fire service responds to emergency incidents. The Authority's CPA scorecard was published on 28 July 2005 and West Midlands Fire and Rescue Authority was rated as a 'good' Authority. The improvement plan is now being developed and progress against the plan will be monitored as part of our audit.

The 2004/05 financial year

Performance management

The Authority has made progress in developing its performance management arrangements, including the introduction of workshops to identify work topics under the CPA Improvement Plan. It is important that these develop through Departmental and Commander Action Plans, which will feed into a Brigade Action Plan, forming a basis for the actions the Authority should take in the coming year. Progress has also been made on developing a corporate approach to partnerships which will provide a basis for assessing the cost benefit of involvement in each partnership.

Financial aspects of corporate governance

Our overall assessment is that you have continued to maintain satisfactory standards of control associated with financial aspects of corporate governance. Continued work is required to develop the assurances supporting the Statement of Internal Control (SIC) in addition to the reliance that is placed on the work of Internal Audit.

Audit of the accounts

We completed the audit work on the accounts to deadline and issued our audit opinion on 18th October 2005. There were only minor adjustments required to the draft set of accounts presented to us within the deadline on 13th July 2005.

Executive summary (continued)

Looking forward to 2005/06 (including key recommendations from this report)

You face a challenging year in 2005/06. Our Annual Audit Plan for 2005/06 will follow on from your Improvement Plan . We have identified the following key issues and recommendations for you to deal with in the forthcoming year.

Progress on the modernisation and efficiency agenda – further development of the arrangements for monitoring and reporting efficiency savings.

Integration of the budget process and the Corporate Planning Process – further refinement of the planning process is required to ensure alignment of the planning and budgetary cycles.

Embedding risk management within the organisation – following the production of the Corporate Risk Register, detailed action plans at area level need to be produced to ensure that risk ownership is embedded in business and service planning to identify the necessary counter-measures.

Embedding performance management – ensuring action plans drive effective performance management which is applied consistently across the Authority.

Use of Resources - Under the new code of audit practice, we have a responsibility to conclude on whether the Authority has made effective use of its resources. The requirements as they apply to Fire Authorities have not been finalised. Additional work may be needed to meet the Use of Resources judgement. This would need to be incorporated into the fee for our 2005/06 audit work.

The rest of this report provides more detailed commentary on these issues and summarises the other work that we have carried out during 2004/05. You will find an action plan relating to key performance improvements in Appendix A.

2 Performance management

The Authority is continuing to address the challenges of embedding performance management at the Authority and is striving to achieve an integrated approach across all levels, and across the range of plans that it produces. The Authority performs well against its statutory performance targets. Key issues for the future include embedding and rationalising performance management processes and embracing the opportunities participation in the Regional Management Board (RMB) presents for the Authority.

One of our duties is to assess whether you have set up appropriate performance-management arrangements. In part, this means considering whether you use your resources economically, efficiently and effectively. Our overall assessment is based on the work streams contained within our Annual Audit Plan, as well as additional areas for review, summarised below:

- Comprehensive Performance Assessment (CPA);
- Performance Management;
- Modernisation Agenda;
- Programme Management and
- Partnership arrangements.

CPA

The Authority's CPA report was published on 28 July 2005. West Midlands Fire and Rescue Authority was rated as a 'good' Authority. We reviewed the way the Authority manages its resources through our auditor scored judgements and scored it a 3 out of a possible 4. The overall scores from the CPA inspection are shown in *Figure 1*.

The assessment identified the following areas of good practice:

- strong and effective leadership, providing the capacity to address the challenges it has set for the forthcoming year, and continue to take the service forward;
- embracing the challenge of the modernisation agenda and innovation in developing its organisational structure and service delivery;
- better internal communication, performance management and partnership working due to the revised organisational structure; and
- a clear and concise vision 'Making West Midlands safer' which the Authority is clearly committed to achieving through a balanced strategy of 'preventing, protecting and responding';

It also identified the following areas for development:

- slow progress has been made in implementing some parts of the equality and diversity agenda. The Authority is not yet working effectively and consistently all the time with all groups; and
- lack of co-ordination of its partnership working due to lack of a consistent strategy, which is reducing potential for identifying and replicating good practice.

2 Performance management (continued)

Figure 1 – CPA Scorecard

A - What is the Fire Authority trying to achieve?	
Theme	Score
Leadership and priorities	3
A balanced strategy	3
B - How has the Fire Authority set about delivering its priorities?	
Theme	Score
Capacity: Governance and management	4
Capacity: Resources and value for money	3
Capacity: People	2
Performance management	2
C- What has the Fire Authority achieved and, in the light of that, what does it plan to do next?	
Theme	Score
Achievement of objectives	3
Achievement of Improvement	4
Future plans	4

(Note: 1 = lowest, 4 = highest)

Use of Resources

We are still awaiting guidance on whether we are required to provide a Use of Resources opinion as part of our 2005/06 audit. This judgement has been introduced for Local Authorities and other public bodies, based on five criteria. Potential additional work may be needed to meet the Use of Resources judgement. This would need to be incorporated in the fee for our 2005/06 audit work. The basis on which the revised fee will be calculated will come from the Audit Commission.

Performance Management

The Authority's Performance Management Framework is based on the overall business planning strategy 'Plan, Do, Review'. Performance management continues to develop at the Authority and a workshop was run on Performance Management, including all staff members, to identify how to take Performance Management forward. The next stage is to produce Departmental and Commander Action Plans in the early part of 2006. Each Director will then be responsible for presenting their Action Plan to the Chief Officer, providing an opportunity for discussion. It is intended to amalgamate all the individual Action Plans to produce a Brigade Action Plan. All Action Plans will be linked to the Corporate Aims, which are reviewed annually. It is important that Departmental Managers and Commanders have the resources and skills to deliver their action plans and contribute to the Authority's corporate planning and budget development process.

Recommendation 1: Developing the performance management arrangements and support at an area level will ensure the Authority's objectives are deliverable.

The Business Plan of the Authority is incorporated into the Best Value Performance Plan (BVPP). The Corporate Board reviews the BVPP and Action Plan quarterly. The lead member for Performance and Planning will direct this process. The IRMP also drives business planning, the outcomes of which are considered alongside internal and external drivers of change. The Authority is considering how to streamline this process through its Improvement Plan.

We plan to carry out further work to assess how these arrangements have been rolled out as part of our 2005/06 Annual Audit Plan.

2 Performance management (continued)

Modernisation Agenda

The Authority continues to make good progress in addressing the challenging modernisation agenda and has introduced robust project management arrangements. We will continue to assess the progress in achieving the objectives set out in the IRMP. The Authority faces more challenging decisions over the next year and it is important that the momentum is maintained.

Regional Management Board

The Authority continues to play a prominent role and provides its Clerk and Treasury functions to the West Midlands Regional Management Board. The Joint Board has its own Constitution and Rules of Procedure and financial contributions for 2004/05 have been made by the individual Authorities.

Each constituent Fire Authority has included provision in its budget for a contribution of £50k towards the cost of the Programme Office in 2005/06. This will provide a total of £351,300 for RMB work in 2005/06, for programme office, training and project costs.

Programme Management

We undertook a review of your programme management arrangements, reporting in May 2005. A number of areas of good practice were identified, including:

- Clear responsibilities and accountabilities for project management;
- An established system for monitoring progress against project deadlines; and
- The development of on-line training and guidance.

A number of suggestions on improving the process were also made, including:

- Reinforcing the link between the project management approach and the associated performance management and risk management framework in the project management guidance;
- Ensure the information collected on project management performance is shared on a regular basis with the Planning and Performance Team and Internal Audit to inform their audit plans;
- Consider identifying and clarifying the different toolkits available to Project Managers to ensure Project Managers are clear what help is available and are able to make best use of it; and
- Look to continue to develop the project management arrangements electronically to promote real time project management through the Authority's intranet.

We will follow up this piece of work as part of our 2005/06 audit plan.

2 Performance management (continued)

Partnership arrangements

The Authority issued a Brigade standing order in April 2005, recognising the importance of partnerships to the Authority. All external partnerships must be formalised through the structured process of completing the appropriate forms and notified to the External Partnerships Officer for inclusion on the Authority database. Any partnership involving the commitment of resources must be formalised and incorporate a Service Level Agreement.

The initial partnership form includes questions on:

- How will the progress and impact of the project/partnership be measured; and
- How often will you report the progress to the Partners/Funding Providers.

The Partnership update form which must be completed quarterly, includes:

- Outcome/results/targets/milestones delivered.

These measures will support a co-ordinated approach to partnership working. This will help to identify good practice and drive improvement in service delivery through the use of partnerships. We will continue to monitor progress in this area.

Best Value Performance Plan and Best Value Performance Indicators (BVPIs)

We have a responsibility to review and where appropriate report on the arrangements that the Authority has put in place:

- to comply with statutory requirements in respect of the preparation and publication of its Best Value Performance Plan;
- for collecting, recording and publishing specified performance information; and
- to secure economy, efficiency and effectiveness in the use of resources.

We issued an unqualified opinion on the Best Value Performance Plan.

Under the Local Government Act 1999 the Authority is responsible for the preparation of a Best Value Performance Plan (BVPP) and for the information and assessments set out within it. As the Authority's auditors, we were required under Section 7 of the Act to carry out an audit of the BVPP focusing upon the following areas:

- Compliance - we assessed whether the BVPP complied with the requirements of the legislation and other associated orders or guidance.
- Performance information - we assessed the systems in place for preparing performance information.

3 Financial aspects of corporate governance

Our overall assessment is that you have continued to maintain satisfactory standards of control associated with financial aspects of corporate governance . You reported an under spend of £89k after establishing reserves to deliver against your future commitments. Due to the unfunded nature of the pension scheme, rising pension costs continue to place significant demands on the budget.

Financial Standing

Revenue income and expenditure

As the external auditors, it is our duty to consider whether you have appropriate arrangements in place to maintain a sound financial position. We first consider the 2004/05 recorded financial out-turn. The 2004/05 budget was set at £109.6m, which included a contribution from general reserves of £1m and transitional funding of £1.42m. The overall budget underspent by £89k after making net earmarked reserve provisions of £2.43m.

The Fire-fighters Pension scheme remains unfunded and, as such, rising pension costs continue to place significant demands on the budget. The Authority recognises the need to review these arrangements and although this issue affects all Fire Authorities, it is important that the Authority continue to monitor the situation closely. Disclosures under the Financial Reporting Standards, based on actuarial valuations, show the estimated liabilities under the scheme have risen to £831.6m (2003/04: £607.7m).

Reserves

The General Fund Reserves now stands at £3.51m. In total these stand at 3% of the recurring spend.

Capital Expenditure

Capital programme of £4.25m was put forward in 2004/05, including the vehicle replacement programme of £960k and Fallings Park refurbishment of £600k.

2005/06 Budget

The Authority set a revenue budget of £113.6m for 2005/06. The reported position as at August 2005 showed a projected year end under spend of £829k on employee's expenditure, and a projected overspend of £1.9m on the fire-fighters pension scheme.

Financial Planning and reporting

The Authority has made good progress in costing its IRMP and developing its financial modelling to support its decision making. This has allowed the Authority to make more informed decisions and developed constructive challenge on a number of the modernisation proposals. It is important that the lessons learnt from this process are applied to wider decision making. This will be particularly important if the Authority is to demonstrate the costs and benefit associated with its actions.

3 Financial aspects of corporate governance (continued)

Budget monitoring is undertaken largely on a subjective basis, for example by type of expenditure i.e. salaries, pensions. It is increasingly important that cost is considered alongside performance which may require changes to how costs are reported, for example, reporting by themes such as community safety. This would help to identify the true cost of delivering certain activities and would assist the Authority in the prioritisation of service delivery. This will help the Authority to understand how it is performing against budget on different areas and compare costs against performance.

Recommendation 2: Review resource allocation and budgets on both a subjective and thematic basis to aid understanding of costs associated to the Authority's activities

The Authority also needs to continue to develop its medium term financial strategy which needs to be owned by the Authority and clearly linked to the corporate plan and other resource plans. This has been identified in the Authority's Improvement Plan.

Use of the Prudential Code

The introduction of the Prudential Code has placed the responsibility for assessing the 'affordable level of borrowing' on each Authority. The Authority has a comprehensive revenue budget and capital programme. These are reported to the Corporate Board and Authority, along with the Prudential Indicators.

The Authority borrowed £3.658m during 2004/05, under its Treasury Management Arrangements with Sandwell Metropolitan Borough Council (SMBC).

Gershon Efficiency Agenda

As a result of the Gershon Review, English Fire Authorities have an efficiency target to achieve £105m gross cashable savings in 2007/08, this is estimated to be equivalent to just over 5% of estimated 2004/05 net outturn expenditure. The Authority is required to complete an Annual Efficiency Statement (AES) comprising of two parts:

- Forward part – providing a brief outline of the strategy for securing efficiency gains, the key actions that will be taken during the next year, and the cashable efficiency gains that were expected to result from them;
- Backward-looking part – setting out the cashable efficiency gains achieved in the past financial year.

The first AES was required by 17th November 2005. Progress has been made against this requirement which has been aided by the detailed costings undertaken whilst producing the IRMP.

3 Financial aspects of corporate governance (continued)

The Authority continues to maintain an effective system of internal control and we were able to place reliance on the systems of internal control over the Authority's core financial systems and were able to rely on Internal Audit's work on the key financial systems. The Authority continues to make progress in the area of Risk Management.

Systems of internal financial control

To assess the systems of internal financial control, we have considered the following aspects of your governance framework.

Statement of internal control	Review of internal audit	Assessment of financial control environment
<p>The Authority has produced its second statement of internal control. Following our recommendation last year, the statement could be further developed through the inclusion of action taken in response to key risks. We recommend that this is considered in accordance with Cipfa best practice (see recommendation 3).</p> <p>The SIC does not refer to the Annual Report as a source of documentation about the Authority's risk management and internal control mechanisms and their effective practice.</p> <p>The SIC was only signed by the Treasurer and not the Chair of the Authority. It is important the Chair signs the statement to reflect the acceptance by the Authority members of the items raised (see recommendation 3).</p>	<p>As part of our interim audit, we completed our review of your internal audit procedure which is provided by the Sandwell Metropolitan Borough Council Internal Audit Department. We were able to place reliance on their work. We continue to liaise with the internal auditors and yourselves to ensure that the work of both internal and external audit compliments each other and provides the Authority with the appropriate mix of controls assurance and performance improvement recommendations. We have already agreed a detailed liaison and work programme to cover the 2005/06 period.</p>	<p>We reviewed the risk management arrangements in place at the Authority.</p>

3 Financial aspects of corporate governance (continued)

The SIC should be seen as a reflection of governance but also relative performance of the Authority. Members need to be aware of the relevant influences and understand the link between performance and effective governance.

Performance needs to be considered alongside governance. This links to the Use of Resources Criteria under code criteria for ensuring 'The council has arrangements in place to maintain a sound system of internal control'. Guidance highlights the requirement for the council to put in place an assurance framework that maps the council's principal objectives to risks, controls and assurances, and provides members with information to support the SIC.

We are still awaiting guidance on whether we are required to provide a Use of Resources opinion as part of our 2005/06 audit, but the principles of the criteria are still applicable.

Recommendation 3: The Authority should:

- define the quality of and type of assurances needed to sign up to the statement.
- consider incorporating the Authority's action in response to key risks in the SIC; and
- ensure the SIC should be signed by both the Chair of the Authority and the Treasurer

New Finance system

As reported last year, the new finance system was implemented at Sandwell MBC from 1st April 2003. There are some instances where system imbalances still exist and reconciliations need to be performed. Some of these impact on West Midlands Fire and Rescue Authority and the Authority is aware of these issues and is working to address them. Progress has been made, however there are still un-reconciled balances on the bank reconciliations and unallocated cash. Some of these problems reflect a lack of clarity on who is responsible for clearing or addressing these imbalances.

Recommendation 4: The Service Level Agreement with Sandwell MBC for 2006/07 should be specific in terms of who is expected to undertake which tasks.

3 Financial aspects of corporate governance (continued)

Risk Management Arrangements

The Authority is still progressing our 2003/04 recommendation to monitor progress in implementing its Action Plans to ensure that its risk management policy is translated into actions that are applied across all levels of the Authority. The Corporate risk review has been undertaken for the second year and the items identified on the high level risk log are reviewed bi-monthly by directors.

Work is beginning on identifying risks on the wider horizon and individuals are being trained to identify risks to teams. The risk teams will then assess whether risks should be a corporate risks or whether this can be managed in the Department.

Risk management is particularly important in respect of partnerships. It is important that the Authority decides who owns and manages the risks associated with partnership working. It is also important that risk is owned at all levels and the Authority will need to continually assess whether the risks and the risk owners are appropriate. The Authority needs to balance the requirement for management to be accountable with the need to develop risk ownership at an operational level. Transfer and sharing of knowledge and risk is essential and it is important that the Authority continues to look at ways of securing this.

3 Financial aspects of corporate governance (continued)

The legality of financial transactions

Based on the work we have undertaken, the Authority has adequate arrangements in place for ensuring the legality of its transactions.

Under the Code of Audit Practice, we must review the arrangements you have in place to identify whether:

- transactions you are involved in that might have a significant financial consequence; and
- contracts that you enter into are legally sound.

We reviewed the Authority minutes, comments received from the officers and your own arrangements to check the legality of the transactions you enter into. These arrangements appear reasonable given the responsibilities of these officers and no matters that require investigation have been brought to our attention

Diversity

The Human Rights Act is embedded into the Authority's employment policy, Equality and Diversity Policy and Service Delivery. The Authority is currently reviewing the Race Equality Scheme and Corporate Race Equality Plan. A project is being undertaken regionally entitled Improving Opportunities in which the Authority is contributing.

Freedom of Information Act

Internal Audit reviewed this area, reporting in May 2005. Four recommendations were made, which will be followed up by Internal Audit in due course. None of these recommendations indicate significant system weaknesses which would impact on the financial statements and therefore our audit opinion. In conjunction with the Director of Administration we reviewed the arrangements against good practice. Although we identified some areas where arrangements could be improved, it was not thought to be cost effective to implement them at this time. This area should be kept under review as it develops in the future.

Standards of financial conduct and preventing and detecting fraud and corruption

The Authority continues to apply effective standards of financial conduct and has maintained adequate controls over the prevention and detection of fraud and corruption

As auditors, we are responsible for assessing the arrangements that management have put in place to prevent and detect fraud and corruption. Our role allows us to consider the role of management throughout the year under the following two headings.

- Proactive arrangements (in other words creating or controlling a situation rather than reacting to it). These include your risk management processes; control mechanisms and policies and procedures. These are reviewed on a cyclical basis by internal audit.
- Reactive arrangements (in other words reacting to a situation rather than creating or controlling it). There were no instances of fraud reported during 2004/05 which resulted in significant financial loss (i.e. >£1,000).

4 Audit of the accounts

We completed the audit work on the accounts to deadline and issued our audit opinion on 18th October 2005.

An important measure of proper financial control and accountability is the audited accounts being signed off and published by the deadline. The Authority produced a set of accounts which required only minor local amendments which were agreed by the Authority's Deputy Finance Officer. We would like to thank all those involved in the final accounts audit process for their assistance.

We have summarised below the three key elements of the audit process.

Element	Commentary
Completeness of draft accounts	We received a complete set of draft accounts on 13 th July 2005. This performance reflects well on the professionalism of the finance staff and their commitment to maintaining robust high-level controls over financial systems.
Quality of supporting working papers	The documentation you provided was to a high standard.
Response to audit queries	You dealt with audit queries quickly and efficiently.

FRS 17

This is the second year in which the financial statements are required to incorporate full disclosures for FRS17. The statements produced were compliant with FRS17 requirements, however there were a number of disclosures required by the SORP which were omitted. We discussed these with the Deputy Finance Officer and these have now been incorporated.

Accounts and Audit Regulations

Changes in these regulations required the Authority to approve and publish their statement of accounts by 31st July 2005. The closedown timetable produced was adhered to and the deadline met. This deadline will be brought forward by a month next year, with approval of 2005/06 accounts being required by 30th June 2006.

Electors' Questions and Objections

Sections 15 and 16 of the Audit Commission Act 1998 provide local electors with the opportunity each year to inspect the accounts of a Fire Authority and subsequently, to put questions and/or objections relating to those accounts to the auditor. Any such representations must be resolved prior to the closure of the audit.

KPMG LLP can report that we have received no questions on the 2004/05 accounts from local electors under Sections 15 and 16 of the Audit Commission Act.

4 Audit of the accounts (continued)

Statement of Auditing Standard 610 (SAS 610) and 240 (SAS 240)

Under SAS 610, we are required to formally communicate to those charged with governance any matters which come to our attention as a result of the audit of the financial statements. The SAS guidance states that the information that we report must include:

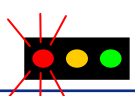
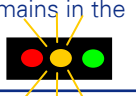

- Any identified mis-statements in the accounts which management have *not* agreed to adjust; and
- Our view on the qualitative aspects of the Authority's accounting and financial reporting practices.

We are pleased to report that there were no unadjusted audit amendments.

In addition, KPMG LLP is required under the Statement on Auditing Standards (SAS 240) to consider any issues that may impact on auditors' independence and objectivity. In relation to the audit of the financial statements for West Midlands Fire and Rescue Authority for the financial year ending 31 March 2005, KPMG LLP is able to confirm that the Commission's requirements in relation to independence and objectivity, have been complied with and that KPMG LLP is not aware of any relationships that may bear on the independence and objectivity of the audit engagement partner and audit staff which are required to be disclosed.


Appendix A: Summary of recommendations and action plan

This appendix summarises the recommendations that we have identified while preparing this annual audit letter. We have given each of our recommendations a risk rating (as explained below) and agreed with management what action you will need to take. We will follow up the four recommendations as part of our 2005/06 annual audit letter.

Priority rating for recommendations raised		
<p>Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p> 	<p>Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> 	<p>Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> 

Number	Risk	Recommendation	Management response	Officer and due date
Performance Management Arrangements				
1	● (two)	Developing the performance management arrangements and support at an area level will ensure the Authority's objectives are deliverable.	Agreed	Director of Performance and Planning November 2006
Budget Monitoring				
2	● (two)	Review resource allocation and budgets on both a subjective and thematic basis to aid understanding of costs associated to the Authority's activities	Agreed	Finance Manager June 2006
Statement of Internal Control				
3	● (two)	<p>The Authority should:</p> <ul style="list-style-type: none"> - define the quality of and type of assurances needed to sign up to the statement. - consider incorporating the Authority's action in response to key risks in the statement of internal control; and - ensure the SIC should be signed by both the Chair of the Authority and the Treasurer 	Agreed	Treasurer June 2006

Appendix A: Summary of recommendations and action plan

Number	Risk	Issue	Management response	Officer and due date
Service Level Agreement				
4	 (two)	The Service Level Agreement with Sandwell MBC for 2006/07 should be specific in terms of who is expected to undertake finance system related tasks.	Agreed	Administration Manager March 2006

Appendix B: Follow-up of last year's principal recommendations

We have followed up the recommendations we made in 2003/04. We noted a total of eight recommendations. The table below provides an overall summary of progress.

Number	Risk	Recommendation	Original management response	Current position
1	● (two)	Medium Term Financial Plan The Medium Term Financial Plan should include: the impact of risk management on the MTFP; strong links between the Asset Management Plan, Capital Strategy, Treasury Management Strategy and Capital Programme; and an understanding of the relationships between the MTFP, Business and Service Planning	Agreed	MTFP was included in the 2005/06 budget report which was presented to the Authority. This incorporated details on the Capital Programme and Prudential Borrowing. Developments only relate to Business Planning. Items on the risk management Action Plan would be incorporated within the 2005/06 budget. Links are made with the Performance Management Framework; value for money framework and Gershon efficiencies. Improvements are still required to link the Asset Management Plan with the MTFP.
2	● (two)	Financial modelling and delivering efficiencies The Authority should further develop its financial modelling to assess the implications of changing policies and practices under the modernisation programme. This is important if the Authority are to realise efficiencies and savings in line with the modernisation agenda.	Agreed	Financial modelling has been undertaken as part of the IRMP. Further modelling will be required to ensure that the requirements of the ODPM efficiency savings are achieved. The Authority has produced its first Annual Efficiency Statement, and the Authority need to ensure that it has the skills and capacity to meet future requirements.
3	● (two)	Statement of Internal Control The Authority should consider incorporating the Authority's action in response to key risks in the statement of internal control.	Agreed	The Statement of Internal control is not linked to the risks faced by the Authority. We recommend that this is considered in accordance with Cipfa best practice.
4	● (one)	Risk management The Authority should closely monitor progress in implementing its action plan to ensure that its risk management policy is translated into actions that are applied across all levels of the Authority. It is also important that risk management is embedded in business and service planning to identify the necessary countermeasures to reduce risk.	Agreed	Corporate risk review undertaken for the second year. The items identified on the high level risk log are reviewed bi-monthly, by directors. Standing Order for risk management is to be drafted imminently.

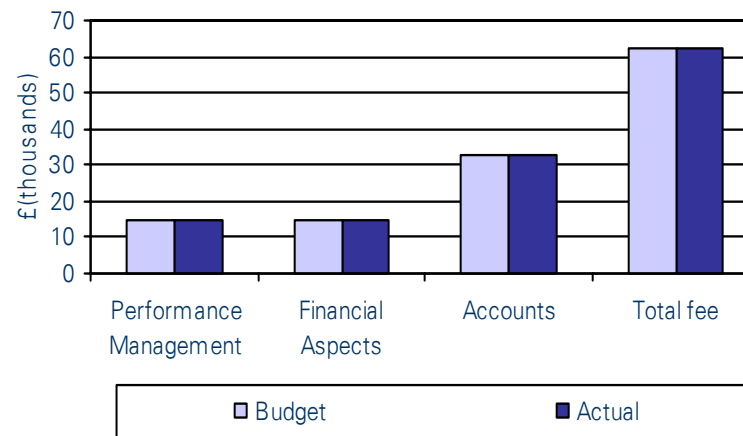
Appendix B: Follow-up of last year's principal recommendations

Number	Risk	Recommendation	Original management response	Current position
		<i>Internal Audit focus</i>	Agreed	
5	● (two)	The Internal Audit Plan should reflect the risks facing the Authority as outlined in the Authority's risk register to ensure audit resources are directed to the areas of greatest risk.		From discussions with the internal audit section at Sandwell Metropolitan Borough Council we understand that the 2005/06 internal audit plan will be risk assessed.
		<i>New system imbalances and reconciliations</i>	Agreed	
6	● (one)	It is important that the Authority resolve outstanding discrepancies caused by the transfer to a new finance system and determine clear lines of accountability between itself and Sandwell MBC in addressing these problems and maintaining reconciliations.		Progress has been made in this area, however there are still un-reconciled balances on the bank reconciliations and unallocated cash on the PARIS system. The SLA with SMBC for 2005/06 should be specific in terms of who is expected to undertake which tasks (see 2005/06 recommendation 4).
		<i>Regional Management Board</i>	Agreed	
7	● (one)	The Authority will need to establish and monitor compliance with standing orders and financial regulations as the Treasurer is responsible for financial matters for the Regional Management Board.		Standing orders and financial regulations are in place for the Regional Management Board.
		<i>Assessing value for money</i>	Agreed	
8	● (two)	The Authority should develop a framework for assessing and demonstrating value for money through developing key unit costs and efficiency targets.		Since this recommendation was made the ODPM has issued guidance on the requirement of Fire Authorities to achieve Gershon efficiency savings. Activities will need to be costed to identify the cashable savings.

Appendix C: Summary of the audit

This section summarises our overall arrangements for delivering of your external audit in 2004/05. To make sure that there is openness between us and the Audit Committee about the extent of our fee relationship with you, we have summarised below the out-turn against the 2004/05 agreed external audit fee.

External audit fee for 2004-05 £62,000



The analysis above shows that our audit fee has been included in the totals you have already approved and that we have not performed any other non-audit work.