

# The Audit Plan for West Midlands Fire and Rescue Authority

**Year ended 31 March 2015**

**March 2015**

**James Cook**

Director

T 0121 232 5343

E [james.a.cook@uk.gt.com](mailto:james.a.cook@uk.gt.com)

**Emily Mayne**

Audit Manager

T 0121 232 5309

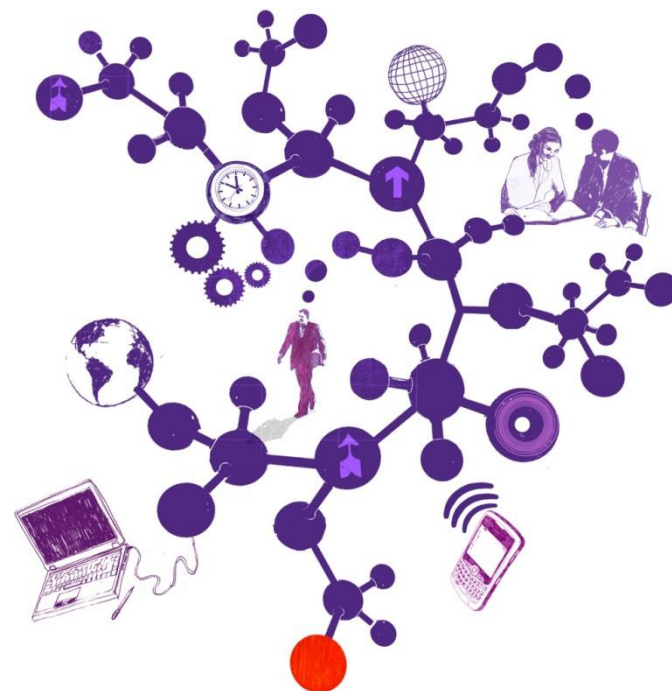
E [emily.j.mayne@uk.gt.com](mailto:emily.j.mayne@uk.gt.com)

**Lauren McHugh**

Audit Associate

T 0121 232 5368

E [lauren.a.mchugh@uk.gt.com](mailto:lauren.a.mchugh@uk.gt.com)



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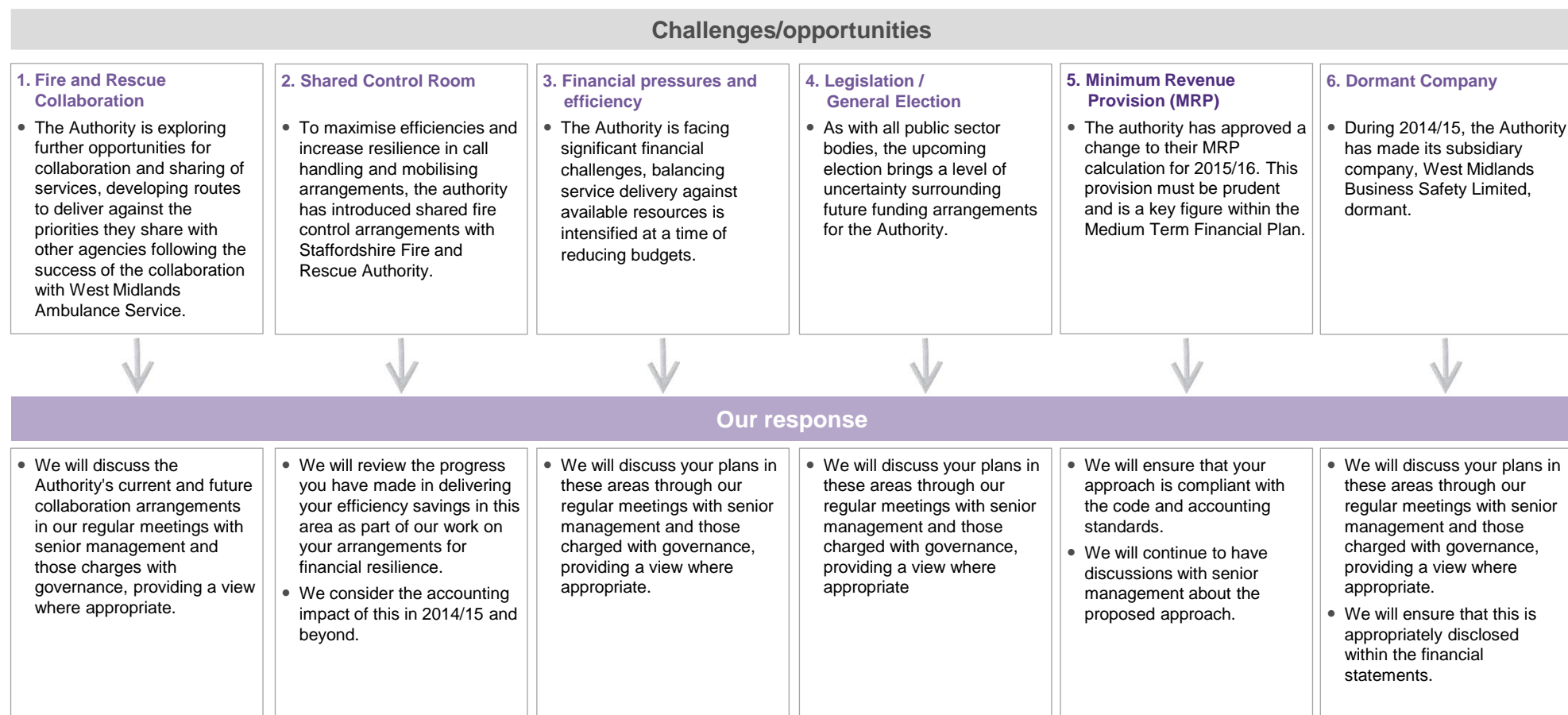
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Authority is facing. We set out a summary of our understanding below.



# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

## Developments and other requirements

### 1. Financial Pressures and the efficiency agenda

- The Authority is facing further reductions in funding, resulting in challenges to:
  - manage and deliver the provision of service with less resource
  - find future savings and ensure that medium and long term viability of the service is maintained
  - make progress against challenging in year saving plans.

### 2. Financial reporting

- Changes to the CIPFA Code of Practice which relate to 14/15.
- Valuation of assets in line with the CIPFA Code of Practice ensuring that the future use of assets is reflected in the value held including the main Fire Head Quarters in light of the HS2 build.

### 3. Corporate governance

- As in previous years the Authority is required to summarise the operation of internal control in its Annual Governance Statement (AGS).
- The Explanatory Foreword is a key opportunity for the Authority to communicate with its stakeholders.

### 4. Other requirements

- The Authority is required to submit a Whole of Government accounts pack on which we provide an audit opinion.

## Our response

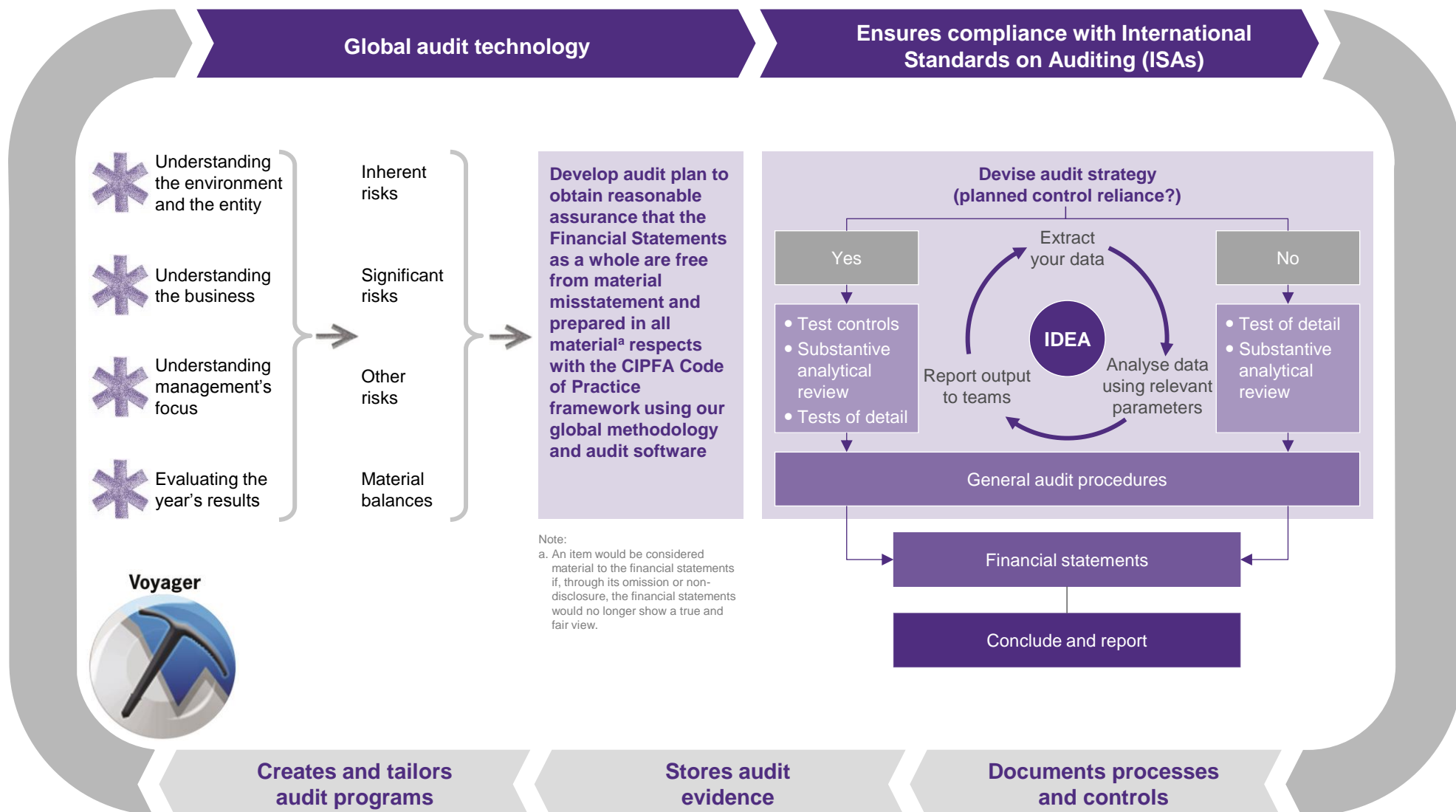
- We will review the Authority's performance against the 2014/15 budget, including consideration of performance against the savings plans.
- We will undertake a review of Financial Resilience as part of our VfM conclusion.

- We will ensure that the Authority complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing.
- We will review the valuation of the asset base to ensure that future plans for assets are fairly reflected within the valuation held on the balance sheet. This will also consider the Authority's asset strategy.

- We will review the arrangements the Authority has in place for the production of the AGS.
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge.

- We will carry out work on the WGA pack in accordance with requirements.
- We will carry out this work in accordance with DCLG requirements and timescale.

# Our audit approach



# Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at West Midlands Fire and Rescue Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"><li>• there is little incentive to manipulate revenue recognition</li><li>• opportunities to manipulate revenue recognition are very limited</li><li>• the culture and ethical frameworks of local authorities, including West Midlands Fire and Rescue Authority, mean that all forms of fraud are seen as unacceptable.</li></ul>
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"><li>• Review of prior year accounting estimates, judgments and decisions made by management</li><li>• Review of journal control environment</li></ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"><li>• Review of current year accounting estimates, judgments and decisions made by management</li><li>• Testing of journal entries</li><li>• Review of unusual significant transactions</li></ul>

# Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>• We have documented the processes and controls in place around the accounting for operating expenses</li><li>• We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding</li><li>• We have undertaken early substantive testing on a sample of operating expenses up to January 2015.</li></ul> <b>Work planned:</b> <ul style="list-style-type: none"><li>• Testing of the completeness of the subsidiary system (purchase ledger) interfaces with the ledger</li><li>• Documentation of the processes in place for month and year end accruals</li><li>• Cut off testing of purchase orders and goods received notes</li><li>• Testing of a sample of goods received that have not yet been invoiced, to identify any items which have not been accrued correctly.</li><li>• Completion testing of a sample of operating expenses to ensure they have been accurately accounted for and in the correct period</li></ul>
Fire Fighter Pension Benefit Payments	Benefits improperly computed / claims liability understated	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>• We have documented processes and controls in place around the accounting for Fire Fighters' Pensions.</li><li>• We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding.</li></ul> <b>Further work planned:</b> <ul style="list-style-type: none"><li>• Agreement of pension disclosures in the financial statements to supporting evidence.</li><li>• Testing a sample of Fire Fighters' pension payments covering the period 1<sup>st</sup> April 2014 to 31 March 2015 to ensure that they have been accurately accounted for and in the correct period.</li></ul>

# Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<b>Work completed to date:</b> <ul style="list-style-type: none"><li>• We have documented the processes and controls in place around the accounting for Employee Remuneration</li><li>• We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding.</li><li>• We have undertaken early substantive testing on a sample of employees covering the period April 2014 to January 2015.</li></ul> <b>Further work planned:</b> <ul style="list-style-type: none"><li>• Review of monthly trend analysis of payments to identify any usual or irregular movements which would then be investigated.</li><li>• Review of the monthly payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and the financial statements.</li><li>• Completion of our substantive testing of employees for accuracy of payment and the agreement of employment remuneration disclosures to supporting documentation.</li></ul>

# Value for money

## Value for money

The Code requires us to issue a conclusion on whether the Authority 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 (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- The ability of the Fire Authority to deliver savings required whilst still maintaining services and performance information.
- The continuing impact of changes to Senior management on the Fire Authority's overall strategic direction.
- Maintaining service delivery around potential strike action and negotiations with the Fire Brigade Union over pension issues.
- The use of assets, in particular, the Fire HQ in light of current occupancy levels and decisions following the communication with HS2.
- Governance arrangements, particularly around partnership working both within and outside the public sector.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

# Results of interim audit work

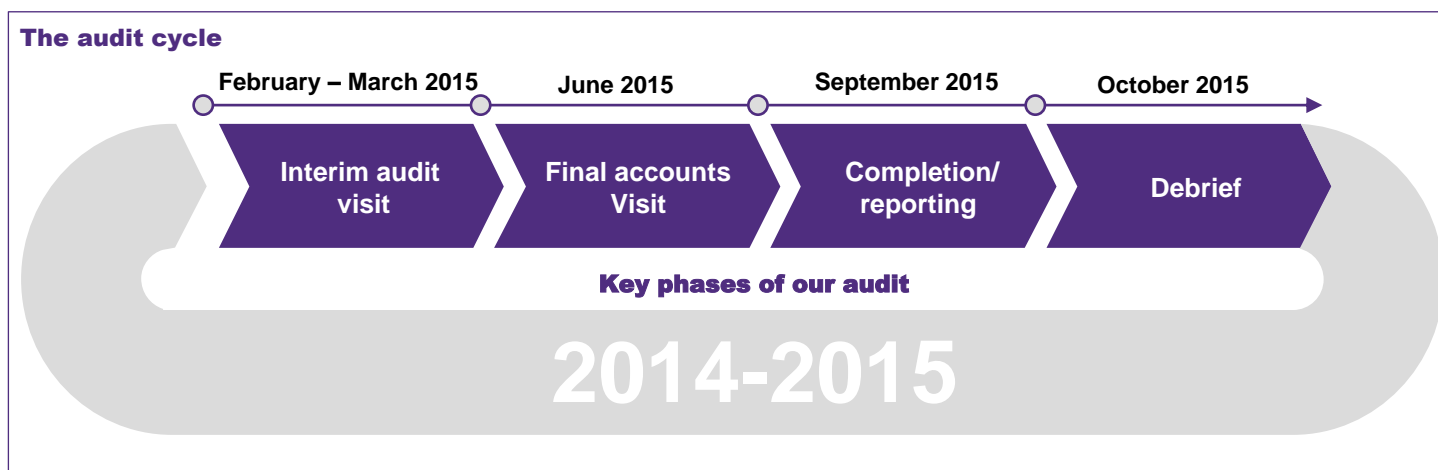
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Authority and that internal audit work contributes to an effective internal control environment at the Authority. We meet regularly with Internal Audit to ensure that any significant risks are shared and audit implications understood by both parties.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"><li>• Communication and enforcement of integrity and ethical values</li><li>• Commitment to competence</li><li>• Participation by those charged with governance</li><li>• Management's philosophy and operating style</li><li>• Organisational structure</li><li>• Assignment of authority and responsibility</li><li>• Human resource policies and practices</li></ul>	Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements

## Results of interim audit work cont'd

	Work performed	Conclusion
<b>Review of information technology controls</b>	<p>We have performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements.
<b>Journal entry controls</b>	We have reviewed the Authority's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Authority's control environment or financial statements.	Our work has not identified any weaknesses which are likely to adversely impact on the Authority's control environment or financial statements. We will undertake detailed testing of journal entries.
<b>Early substantive testing</b>	We have undertaken initial substantive testing on employee remuneration and operating expenditure.	Our work has not identified any issues. At the year end we will complete the sample testing and ensure that related disclosures are appropriate.
<b>Value for money</b>	We have reviewed the Authority's budget and other financial planning documents and completed our initial risk assessment against the Audit Commissions VFM criteria.	This work is on going and we will continue monitor the Authority's arrangements for financial resilience and achievement of its targets.

# Key dates



Date	Activity
January 2015	Planning
February and March 2015	Interim site visit
March 2015	Presentation of audit plan to Audit Committee
June 2015	Year end fieldwork
July 2015	Audit findings clearance meeting with Strategic Enabler of Finance and Resources
September 2015	Report audit findings to those charged with governance Audit Committee
September 2015	Sign financial statements opinion
October 2015	Whole of Government Accounts reported on
November 2015	Annual Audit letter finalised

# Fees and independence

## Fees

	£
Fire Authority Audit	51,515
<b>Total fees (excluding VAT)</b>	<b>51,515</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Authority and its activities, have not changed significantly
- The Authority will make available management and accounting staff to help us locate information and to provide explanations

## Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

## Fees for other services

Service	Fees £
None	Nil

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Authority.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Authority's key risks when reaching our conclusions under the Code.

It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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