

Audit Progress Report and Sector Update

West Midlands Fire and Rescue Authority
Year ending 31 March 2018

March 2018



Contents

Section	Page
Introduction	03
Progress to date	04
Audit Deliverables	05
Sector Update	06
Links	12

Introduction



Richard Percival

Engagement Lead

T 0121 232 5434
M 07584 591508
E richard.d.percival@uk.gt.com



Emily Mayne

Engagement Manager

T 0121 232 5309
M 07880 456112
E emily.j.mayne@uk.gt.com

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a Fire and Rescue Authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress to date

Financial Statements Audit

We have started planning for the 2017/18 financial statements audit and will issue a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2017/18 financial statements.

We commenced our interim audit in February 2018, with a second visit scheduled for March 2018. Our interim fieldwork visit includes:

- Updated review of the Authority's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin at the end of May with findings reported to you in the Audit Findings Report by the earlier deadline of July 2018.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We will make our initial risk assessment to determine our approach in January 2018 and report this to you in our Audit Plan.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

Other areas

Meetings

We met with Finance Officers in November as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also meet with your Chief Fire Officer to discuss the Authority's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2017/18.	April 2017	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2017-18 financial statements.	January 2018	Complete
Interim Audit Findings We will report to you the significant findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2018	In progress
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2018	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2018	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	September 2018	Not yet due

Sector Update

Local government finances are at a tipping point. Local Government bodies are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

Labour commits to installing sprinkler systems in all new schools.

Labour says it would close a loophole in current legislation that allows a significant proportion of schools not to install sprinklers as figures show less than one in three have them fitted.

A Labour government would ensure all new schools have sprinkler systems in place as fresh figures show less than one in three schools built or refurbished by central government since 2010 have them installed.

Party officials told *The Independent* that, if elected, Labour would remove a “loophole” in the existing legislation, which they claim allows a significant proportion of schools not to fit sprinklers.

The announcement comes after new figures were disclosed by schools minister Nick Gibb in a response to a written parliamentary question in the Commons this month.

Mr Gibb said that since 2010, of the 260 schools commissioned by the Department for Education (DfE) under phase one of the Priority School Building Programme, 74 (28 per cent) have, or are planned to have, sprinkler systems.

It means the vast majority (72 per cent) of the schools on programme – aiming to rebuild and refurbish schools buildings in the worst conditions across the country – will not have sprinklers in place. The Government hoped that most of the schools would open by the end of 2017.

Sprinklers are currently mandatory in schools in Scotland and Wales, but not in England and Northern Ireland – despite a warning from fire chiefs last year that the Government risks “playing with children’s lives” and called for all new and refurbished schools to have them installed.

Earlier this month, unions also lashed out a decision to rebuild Selsey Academy in West Sussex without sprinklers after the building was almost completely destroyed by a fire in 2016. The Fire Brigades Union said it was “incomprehensible” and said the government was “shockingly cavalier” in its attitude towards fire safety.

Angela Rayner, the Shadow Education Secretary, told *The Independent* that a Labour government would provide £14bn that was needed to bring schools up to a “good standard”.

A DfE spokesperson said: “Schools have a range of fire protection measures and new schools undergo an additional check while being designed. Where sprinklers are deemed necessary to keep children safe, they must be installed.

“Since the Grenfell tragedy we have contacted all bodies responsible for safety in schools and instructed them to carry out checks to identify buildings that may require further investigation.

“We are working closely with the two schools where ACM classing of potential concern has been identified so that the necessary remedial action is taken.”

The DfE added that all new school buildings must be signed off by an independent inspector to certify that they meet the requirements and designed to protect occupants and allow them to escape in the event of a fire.

Existing regulations contain the presumption that new schools should have sprinklers fitted except in cases where buildings are considered to be “low-risk”. Labour says it will alter this to ensure that new-builds must have systems installed.

Fire safety standards need 'immediate' overhaul.

An urgent overhaul of the UK's safety regime is needed as dangerous products continue to cause thousands of potentially deadly fires in homes, according to a consumer watchdog.

In January 2018, the Government launched a new Office for Product Safety and Standards, but it has yet to reveal any plans.

Which? said the response to remove faulty white goods is falling short – with malfunctioning kitchen appliances causing nearly 16,000 fires across the UK since April, 2012.

The consumer group has given ministers 90 days to publish an action plan to set out the “true scale” of product safety risks in the UK as well as the “immediate steps” it will take to prevent further fires.

Faulty goods cause more than 60 fires a week. Washing machines and tumble dryers are the most high-risk, causing 35% of fires between April, 2014 and March, 2016.

Peter Vicary-Smith, of Which? said: “It’s shocking that there are more than 60 house fires every week in the UK because of faulty appliances.

“People will undoubtedly be worried to hear our findings that some of the most common household appliances represent a disproportionate risk of causing a fire due to being faulty.”

Chair of the Business, Energy and Industrial Strategy Committee Rachel Reeves MP said : “While we welcomed the decision to establish an Office for Product Safety and Standards, we agree the Government must make sure it has real teeth and ensure it leads to more people registering their products, a better recall regime and ultimately a reduction in the number of fires that blight so many homes and put lives at risk.”

More information on the Office for Product Safety and Standards can be found here:

<https://www.gov.uk/government/news/government-launches-new-office-for-product-safety-and-standards>

Public Sector Audit Appointments: Report on the results of auditors' work 2016/17

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

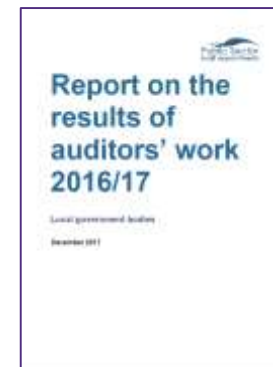
The timeliness and quality of financial reporting for 2016/17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. Compared with 2015/16, the number of principal bodies that received an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on their accounts by the end of July compared with 49 (10 per cent) for 2015/16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017/18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015/16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new reporting timetable from 2017/18. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015/16. The most common reasons for auditors issuing non-standard conclusions on the 2016/17 accounts were:

- the impact of issues identified in the reports of statutory inspectorates;
- corporate governance issues; and
- financial sustainability.

The latest results of auditors' work on the financial year to 31 March 2017 show a solid position for the majority of principal local government bodies. Generally, high standards of financial reporting are being maintained despite the financial and service delivery challenges currently facing local government.



Changes to the prudential framework of capital finance

The Ministry of Housing Communities and Local Government has updated the Local Authority Investments Guidance and the Minimum Revenue following its publication of consultation responses on 2 February 2018.

A total of 213 consultation responses were received by the MHCLG by the 22 December 2017 deadline from across local government. Following consideration of the responses the Government has:

- made some technical changes to the Investments Guidance and MRP Guidance
- amended proposals relating to useful economic lives of assets
- implemented the Investments Guidance for 2018-19, but allowed flexibility on when the additional disclosure first need to be presented to full Council
- deferred implementation of MRP Guidance to 2019-20 apart from the guidance “Changing methods for calculating MRP”, which applies from 1 April 2018.

Key changes are noted below.

Statutory Guidance on Local Authority Investments

Transparency and democratic accountability – the revised guidance retains the requirement for an Investment Strategy to be prepared at least annually and introduces some additional disclosures to improve transparency. However, as the changes to the CIPFA Prudential Code include a new requirement for local authorities to prepare a Capital Strategy, the revised guidance allows the matters required to be disclosed in the Investment Strategy to be disclosed in the Capital Strategy.

Principle of contribution – the consultation sought views on the introduction of a new principle requiring local authorities to disclose the contribution that non-core investments make towards core functions. Authorities’ core objectives include ‘service delivery objectives and/or placemaking role.’ This clarification has been made to recognise the fact that local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and that they may want to hold long term investments to facilitate this.

Introduction of a concept of proportionality – the Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. The consultation sought views on requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. A majority of respondents supported the introduction of a concept of proportionality, recognising the importance that local authorities make decisions based on an understanding of the overall risk that they face.

Borrowing in advance of need – by bringing non-financial investments (held primarily or partially to generate a profit) within the scope of the Investments Guidance, the consultation proposals made it clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudential. The Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance. It is also important to note that nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will still need to consider whether any novel transaction is lawful by reference to legislation.

Minimum Revenue Provision Guidance

The consultation sought views on proposals to update the guidance relating to MRP to ensure local authorities are making prudent provision for the repayment of debt.

Meaning of a charge to the revenue account – the Government does not believe that crediting the revenue account is either prudent or within the spirit of the approach set out in the relevant Regulations. For this reason a charge to the account should not be a negative charge.

Impact of changing methods of calculating MRP – the Government does not expect any local authority to recalculate MRP charged in prior years due to the proposed changes in methodology.

Introduction of a maximum economic life of assets – the consultation sought views on setting a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The MRP Guidance will set a maximum life of 50 years, but allow local authorities to exceed this where the related debt is PFI debt with a longer term than 50 years, or where a local authority has an opinion from an appropriately qualified person that an operational asset will deliver benefits for more than 50 years.



Changes to capital finance framework

Challenge question:

Has your Strategic Enabler for Finance and Resources briefed members on the impact of the changes to the prudential framework of capital finance?

CIPFA publications - The Prudential Code for Capital Finance in Local Authorities (2017 Edition)

CIPFA have published an updated 'Prudential Code for Capital Finance in Local Authorities'. Key developments include the introduction of more contextual reporting through the requirement to produce a capital strategy along with streamlined indicators.

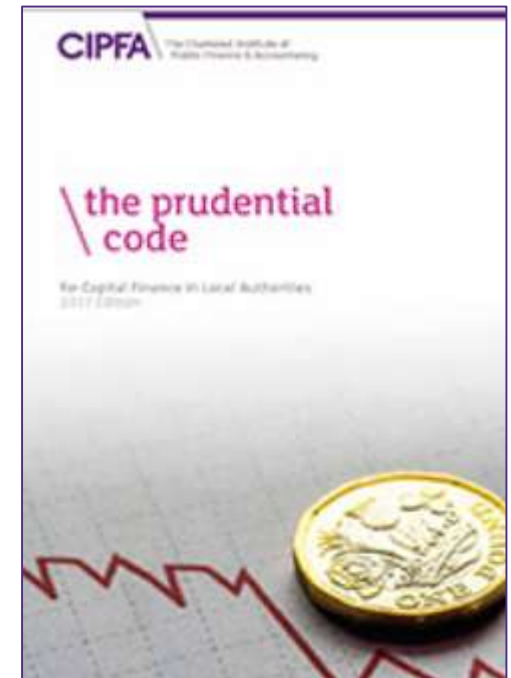
The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003, and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

Since the Prudential Code was last updated in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda. It reflects the increasing diversity in the sector and new structures, whilst providing for streamlined reporting and indicators to encourage better understanding of local circumstances and improve decision making.

The introduction of a capital strategy allows individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment.

The Code is available in hard copy and online.



CIPFA Publication

Challenge question:

Has your Strategic Enabler for Finance and Resources briefed members on the impact of the changes to the prudential code?



Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

CIPFA website link

<http://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2017-edition-book>

PSAA website links

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

MHCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>



© 2017 Grant Thornton UK LLP. Confidential and information only.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. This proposal is made by Grant Thornton UK LLP and is in all respects subject to the negotiation, agreement and signing of a specific contract/letter of engagement. The client names quoted within this proposal are disclosed on a confidential basis. All information in this proposal is released strictly for the purpose of this process and must not be disclosed to any other parties without express consent from Grant Thornton UK LLP.