

The Audit Findings for West Midlands Fire and Rescue Authority

Year ended 31 March 2019

July 2019



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**Your key Grant Thornton
team members are:**

Richard Percival
Key Audit Partner

T: 0121 232 5434
E: richard.d.percival@uk.gt.com

Javed Akhtar
Audit Manager

T: 0121 232 5340
E: javed.akhtar@uk.gt.com

Kiran Hussain
Executive

T: 0121 232 5107
E: kiran.hussain@uk.gt.com

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A. Fees
B. Audit Opinion

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of West Midlands Fire and Rescue Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Authority's financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the Authority's income and expenditure for the year; and• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during May and June 2019. Our findings are summarised on pages 3 to 19.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion Appendix C or material changes to the financial statements, subject to the following outstanding matters:</p> <ul style="list-style-type: none">• Receipt of the Assurance Letter from the Pension Fund external auditor to admitted body auditors;• Response from the valuer in relation to queries raised on the Authority's asset valuations;• receipt of management representation letter;• Updating our post balance sheet events review to the date of signing the opinion; and• review of the final set of financial statements. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unqualified.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Authority's value for money arrangements. We have concluded that West Midlands Fire and Rescue Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix B. Our findings are summarised on pages 14 to 19.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and• To certify the closure of the audit.	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Authority's business and is risk based, and in particular included:

- An evaluation of the Authority's internal controls environment, including its IT systems and controls; and

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 25 March 2019.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit & Risk Committee meeting on 29 July 2019, as detailed in Appendix B. These outstanding items include:

- Receipt of the Assurance Letter from the Pension Fund external auditor to admitted body auditors;
- Response from the valuer in relation to queries raised on the Authority's asset valuations;
- receipt of management representation letter;
- Updating our post balance sheet events review to the date of signing the opinion; and
- review of the final set of financial statements.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. We detail in the table below our assessment of materiality for West Midlands Fire & Rescue Authority.

	Planning (as reported in the Audit Plan (£))	Financial Statements (£)	Qualitative factors considered
Materiality for the financial statements	£2,488,000	£2,396,000	Financial performance of the Authority focussing on the cost of services.
Performance materiality	£1,866,000	£1,797,030	Quality of working papers in prior year and Authority response to audit processes.
Trivial matters	£124,000	£119,802	The amount below which matters would be considered trivial to the reader of the accounts.
Materiality for specific transactions, balances or disclosures	£100,000	£100,000	Materiality has been reduced for remuneration disclosures to £100k due to its sensitive nature and public interest.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>1 The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. 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>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including West Midlands Fire & Rescue Authority, mean that all forms of fraud are seen as unacceptable. <p>Therefore, we did not consider this to be a significant risk for West Midlands Fire & Rescue Authority.</p> <p>We have not altered our assessment as reported in the audit plan and therefore have no issues to report in this regard.</p> <p>Whilst not a significant risk, as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate our rebuttal was incorrect.</p>
<p>2 Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determine the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our audit work has not identified any issues in respect of management override of controls.</p>

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

3 Valuation of pension fund net liability Auditor commentary

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1,600 million in the Authority's balance sheet, as at 31st March 2018) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and
- undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

We have nothing to report in respect of the work above. However, during the course of the audit, the Authority has sought a revised report from the actuary in order to account for the impact of the recent "McCloud" judgement and also in relation to Guaranteed Minimum Pension (GMP) impact.

This is considered under section "Significant findings – key judgements and estimates" at pages 9 to 11.

The revised actuaries reports were provided in July and the accounts updated accordingly. It has led to an increase in the net pension liability shown on the face of the balance sheet from £1,751,515k to £1,805,148k an increase of £53,633k. This has also resulted in a significant number of adjustments to the primary statements and the notes to the accounts.

We are yet to review that these adjustments have been reflected in the revised financial statements

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary
<div><div>1</div><div>Valuation of Property, Plant and Equipment</div><div><p>The Authority revalue' s its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£120.675 million) and the sensitivity of this estimate to changes in key assumptions.</p><p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2019.</p><p>We therefore considered valuation of land and buildings, particularly revaluations and impairments, as a specific audit consideration.</p></div></div>	<div><div>We:</div><div><ul style="list-style-type: none">• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;• evaluated the competence, capabilities and objectivity of the valuation expert;• wrote to the valuer to confirm the basis on which the valuations were carried out;• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;• tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register; and• evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</div></div> <div><p>Our audit work has not identified any issues in respect of valuation of land and buildings, based on the work to date.</p><p>However, we cannot conclude upon this area as at the time of writing as we have challenged the Authority's valuer with regard to some of the assumptions used in the 2018-19 valuation and will consider these on receipt of the response.</p></div>

Significant findings – key judgements and estimates

Summary of management's policy

Audit Comments

Assessment

Net pension liability – £1,751 million

The Authority's total net pension liability at 31 March 2019 per the draft accounts was £1,751 million (PY £1,671 million). The Authority uses the Government Actuary's Department for the Fire Fighters Pension Schemes and Barnett Waddingham LLP to provide actuarial valuations of the Authority's assets and liabilities derived from the Local Government Pension Scheme in which it participates, through the West Midlands Pension Fund. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.

Since the draft accounts were produced an updated actuarial report incorporating asset valuations as at March 2019 has been received. The financial statements have been updated in this regard.

This led to an increase of £53.6 million in the net pension liability: the liability in the updated financial statements is now £1,805 million. This was in line with national guidance at the time from CIPFA.

PWC on behalf of the NAO produce a report designed to provide support to auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing IAS 19 figures in respect of the LGPS, Police and Fire schemes as at 31 March 2019.

We use this report to inform our assessment of the valuation of the pension fund liability in the Authority's accounts.. Based on the work performed we are able to conclude that management's assumptions overall are reasonable.

Assumption	BW Value	PwC range	GAD Value	PwC range
Discount rate	2.4%	2.35%-2.45%	2.45%	2.45%
Pension increase rate	2.4%	2.4% to 2.45%	2.35%	2.35%
Salary growth	3.9%	0% to 1.5% greater than discount rate	4.35%	4.35%
Life expectancy – Males currently aged 45 / 65	22.6 years	22.2 years to 25 years	23.9 years	22.6 years to 24.6 years
Life expectancy – Females currently aged 45 / 65	25 years	25 years to 26.6 years	23.9 years	22.6 years to 26.2 years

We have also reviewed the:

- Completeness and accuracy of the underlying information used to determine the estimate
- Reasonableness of the Authority's share of LGPS pension assets.
- Reasonableness of increase/decrease in estimate
- Adequacy of disclosure of estimate in the financial statements

and have no findings to bring to your attention in this regard.




Green

Assessment


- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

Summary of management’s policy	Audit Comments	Assessment
<p>McCloud ruling re age discrimination</p> <p>In January 2017, the Employment Tribunal ruled that transitional provisions in the New Judicial Pension Scheme (NJPS) were unlawfully age discriminatory because they were not objectively justified.</p> <p>Firefighters brought a similar age discrimination case and the Employment Tribunal ruled that similar transitional provisions were a proportionate means of achieving a legitimate aim and so did not give rise to unlawful age discrimination. Firefighters appealed the ruling and in December 2018 the Court of Appeal looked at both the judges and firefighters' cases and ruled that there was age discrimination in both the judges and firefighters pension schemes where transitional protection was given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal and on 27 June 2019 it was announced this was denied.</p> <p>The Authority disclosed a contingent liability in their draft accounts on the basis that impact of the Court of Appeal decision was uncertain as the Government was seeking leave to appeal this decision. As a result a present obligation did not exist.</p>	<p>Our view is that the McCloud judgement gives rise to a past service cost and liability within the scope of IAS 19 Employee Benefits as the ruling created a new obligation.</p> <p>We wrote to all our local government and fire authority clients in June setting out our views and recommending that bodies ask their actuaries to re-run the IAS19 reports with the actuary reflecting the best estimate for restitution and providing sensitivity analysis for key assumptions. The Authority requested a revised actuarial report from GAD and this was received on the 1st July 2019. This reported:</p> <p>“Impact on 2018/19 pension scheme accounts – If compensation is payable to employees who were transferred to the reformed 2015 schemes, it is expected to lead to an increase in pension scheme liabilities. GAD has estimated the potential increase in scheme liabilities as a result of this judgment to be approximately £67.6 million”.</p> <p>The Authority have adjusted their pensions disclosures following receipt of the revised report.</p>	<div></div> <p>Green</p>

Assessment
<ul style="list-style-type: none">● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated● We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic● We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious● We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment
<p>Guaranteed Minimum Pension (GMP)</p> <p>In October 2017, the High Court ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements (GMPs) have had on members benefits. GMPs must be equalised between men and women and that past underpayments must be corrected. Actuaries have taken differing approaches to this issue.</p>	<p>We have considered the allowance made for GMPs by both GAD (for the firefighters' schemes) and Barnett Waddingham for the Local Government scheme and have concluded that no amendment is required to the Authority's accounts.</p>	<div></div> <p>Green</p>

- Assessment**
- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
 - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
 - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
 - We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
<p data-bbox="69 411 107 451">1</p> <p data-bbox="147 403 741 467">Other matters that are significant to the oversight of the financial reporting process.</p> <p data-bbox="147 480 741 544">Merger with the West Midlands Combined Authority (WMCA)</p> <p data-bbox="147 584 763 703">In 2016/17 WMFRA signalled its intention to become part of WMCA's overall governance structure and has been working with the WMCA and the West Midlands seven local authorities in order to implement this.</p>	<p data-bbox="763 403 1435 496">The draft order was submitted to the Home Office on the 22nd March 2019 for the laying of the order in parliament on 5th June 2019.</p> <p data-bbox="763 528 1435 687">In preparation for the order to be laid, the Home Office required consent from the West Midlands seven local authorities. However, four local authorities have rejected the proposals meaning that the Authority is unable to proceed in the laying of the order in parliament.</p> <p data-bbox="763 719 1458 1023">The key issues that have led to the rejection by local authorities relate to:</p> <ul data-bbox="763 775 1435 935" style="list-style-type: none">• provisions that were intended to safeguard the role of chief fire officer;• the integrity of the role of the chief fire officer; and• ringfencing of the fire budget within the overall combined authority budget <p data-bbox="763 935 1458 1023">which could not be reflected in the Parliamentary Order and had to be delivered through amendment of the WMCA constitution.</p> <p data-bbox="763 1054 1413 1118">The Authority will consider the impact of the setback on future governance arrangements as it moves forward.</p> <p data-bbox="763 1150 1402 1246">The Authority plans to continue to collaborate with the seven local authorities, WMCA and other partners to reduce vulnerability and risk within it's communities.</p>	<p data-bbox="1458 403 2152 632">This represents a significant change for the Authority, and the planned merger is now unlikely to happen during 2019/20. However, management have confirmed that they will continue to collaborate with the seven local authorities on a way forward and the shaping of future governance arrangements.</p>

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit & Risk Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
3	Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	Written representations	A letter of representation has been requested from the Authority.
5	Confirmation requests from third parties	We requested from management permission to send a bank confirmation request. This permission was granted and the request was sent. This request was returned with positive confirmation.
6	Disclosures	Our review found no material omissions in the financial statements.
7	Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
1 Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and the Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix C.</p>
2 Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
3 Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Work is not required as the Authority does not exceed the threshold.</p>
4 Certification of the closure of the audit	<p>We intend to certify the closure of the 2018/19 audit of West Midlands Fire and Rescue Authority in the audit opinion, as detailed in Appendix C.</p>

Value for Money

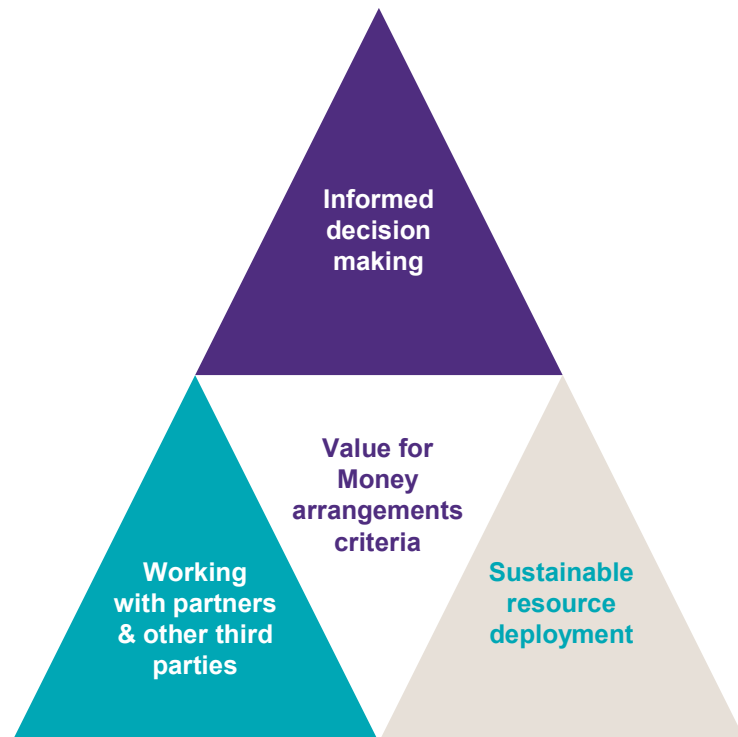
Background to our VFM approach

We are required to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Authority. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February 2019 and identified one significant risk using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated 25 March 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Authority's arrangements. In arriving at our conclusion, our main considerations were in relation to the financial sustainability of the Authority, given the continued use of general reserves and the significant risks in relation to pensions costs and increased levels of savings required to deliver a balanced budget.

We considered:

- how the Authority has responded to these challenges in terms of its plans for future years.
- whether your financial position leads to material uncertainty about the going concern of the Authority and reviewed related disclosures in the financial statements.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 16 to 19.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Authority had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix C.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	<p>Financial Sustainability</p> <p>The Authority is forecasting that it will deliver the budget for 2018/19 however this will require the use of £1.5 million of general reserves. The Authority's reserves have reduced from £9.2million in 2016/17 to £6.9 million at the start of 2019/20. It is anticipated that £1.1 million of General Reserves will be utilised in 2019/20 and a further £0.75 million used in 2020/21, reducing general reserves to £5 million. The 2019/20 budget requires savings of £3.8 million to be made in order to achieve the budget.</p> <p>Looking forward, there are significant new risks emerging which will require the Authority to find further efficiency savings which include the impact of:</p> <ul style="list-style-type: none"> FFPS – Employers Contributions – potential additional costs of £6.2 million (originally £5.3 million) per annum assuming no government funding. FFPS – Court of Appeal judgement – potential additional costs of £1.5m per annum. <p>We will:</p> <ul style="list-style-type: none"> assess how the Authority has responded to these challenges in terms of its plans for future years. consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements. 	<p>2018-19 Outturn</p> <p>The Authority once again delivered an improved position against its approved budget delivering net expenditure of £104.296m against a plan of £107.016m, giving a positive variance of £2.720m. In addition, funding also delivered a positive variance of £607k, with income received of £55.910m against a plan of £55.303m. The net impact for the Authority was to deliver a positive variance to plan of £2.503m, which has been used fully to create new earmarked reserves. In addition, contributions from earmarked reserves were also lower in the year, £8.108m compared to a plan of £8.932m, giving a positive variance of £824k.</p> <p>In June 2018, the Executive Committee approved the removal of New Entrant contracts to avoid industrial action by Grey Book staff. This has impacted the Services ability to generate Alternative Funding and achieve the full level of staff savings reflected within the Financial Efficiency Plan. At the Authority meeting on 17th September 2018, Members supported a reduced level of Voluntary Additional Shifts to make savings of £750k in 2018/19 to offset the shortfall in the FEP.</p> <p>2019-20 Position:</p> <p>The Authority approved a budget for 2019-20 in its February 2019 Authority meeting taking into account the latest Government settlement notified to them at the end of January 2019. This will be the final year of the four-year settlement that the Authority signed up to in 2016/17, which required it to deliver savings of £9.895m over the same period.</p> <p>The 2019-20 budget assumes:</p> <ul style="list-style-type: none"> Savings of £3.8m to be made in 2019/20 in order to achieve the Financial Efficiency Plan savings. Increased net costs of £0.5m for Firefighters Pension Scheme – Employers Contributions due to a change in the discount rate for unfunded public sector pensions from 3% to 2.4%, which has the effect of increasing the employer contributions (to include ill-health costs) from an average 17.6% to 30.2% from April 2019. The increase in the 2019/20 Employer's Pension contributions is estimated to be £6.2m. A s31 government grant of £5.7m has been allocated in 2019/20. 	<p>Auditor view</p> <p>On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p>

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	<p>Financial Sustainability</p> <p>The Authority is forecasting that it will deliver the budget for 2018/19 however this will require the use of £1.5 million of general reserves. The Authority's reserves have reduced from £9.2million in 2016/17 to £6.9 million at the start of 2019/20. It is anticipated that £1.1 million of General Reserves will be utilised in 2019/20 and a further £0.75 million used in 2020/21, reducing general reserves to £5 million. The 2019/20 budget requires savings of £3.8 million to be made in order to achieve the budget.</p> <p>Looking forward, there are significant new risks emerging which will require the Authority to find further efficiency savings which include the impact of:</p> <ul style="list-style-type: none"> FFPS – Employers Contributions – potential additional costs of £6.2 million (originally £5.3 million) per annum assuming no government funding. FFPS – Court of Appeal judgement – potential additional costs of £1.5m per annum. <p>We will:</p> <ul style="list-style-type: none"> assess how the Authority has responded to these challenges in terms of its plans for future years. consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements. 	<ul style="list-style-type: none"> No impact of the Firefighters Pension Scheme Court of Appeal 'McCloud' judgement which found that the transitional protections introduced with the new Pension scheme in 2015 were unlawfully discriminatory on grounds of age. The Authority have estimated that the increase in employer's contribution, if members moved back to the 1992 Scheme, would be in the region of £1.5m per annum. In July 2019, the Government was refused leave to appeal the judgement and therefore the employment tribunal will now consider the repatriations necessary. the Authority will generate estimated income of £3.079m (£3.877m in 2018/19). This is due to the Executive Committee approving the removal of New Entrant contracts to avoid industrial action by Grey Book staff in June 2018 which has had a significant impact on the Services ability to generate Alternative Funding and achieve the full level of staff savings reflected within the FEP. Use of £1.1m of general balances to support the net budget requirement. This would result in the Authority's available General Balances being approximately £5.8 million by the end of 2019/20 (6% of the Authority's 2019/2020 Net Revenue Budget). <p>Actual spend to May 2019, including commitments, was £19.683 million compared to a projected budget of £19.701 million, an overall favourable variance of £0.018 million. Management have confirmed as part of regular updates with them that at the end of Quarter 1 the Authority is on track to achieve the savings approved as part of the 2019/20 budget setting process and to deliver the budget position. Management have identified that there are a number of spend pressures emerging for the year but mitigating action is being taken where possible.</p> <p>The Authority is currently maintaining an under borrowed position and is forecast to continue to do so over the next two years.</p>	<p>Auditor view</p> <p>On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p>

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	<p>Financial Sustainability</p> <p>The Authority is forecasting that it will deliver the budget for 2018/19 however this will require the use of £1.5 million of general reserves. The Authority's reserves have reduced from £9.2million in 2016/17 to £6.9 million at the start of 2019/20. It is anticipated that £1.1 million of General Reserves will be utilised in 2019/20 and a further £0.75 million used in 2020/21, reducing general reserves to £5 million. The 2019/20 budget requires savings of £3.8 million to be made in order to achieve the budget.</p> <p>Looking forward, there are significant new risks emerging which will require the Authority to find further efficiency savings which include the impact of:</p> <ul style="list-style-type: none"> FFPS – Employers Contributions – potential additional costs of £6.2 million (originally £5.3 million) per annum assuming no government funding. FFPS – Court of Appeal judgement – potential additional costs of £1.5m per annum. <p>We will:</p> <ul style="list-style-type: none"> assess how the Authority has responded to these challenges in terms of its plans for future years. consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements. 	<p>Forward Look:</p> <p>The Authority's level of general reserves have declined significantly in recent years going from £8.4m (8.8% of net revenue budget) on the 1st April 2018 to £6.9m (7.2%) as at 1 April 2019 and expected to decline to £5.8m (6%) by 1 April 2020.</p> <p>The use of General Balances is not a sustainable means of funding the Authority's revenue budget. Consideration needs to be given to further Service changes to reduce the reliance on General Balances. From 2021/22, the financial plan currently shows a budget deficit of £1.7m. Using general reserves to temporarily fund this gap will further reduce to balances to £3.3m.</p> <p>The Authority's three-year financial strategy continues to be updated to ensure that the revenue budget is sustainable and does not seek to rely on reserves to deliver a balanced budget on an on-going basis.</p> <p>As part of the budget setting process each year, the S151 officer is required to review and confirm that the level of reserves held is prudent in light of the risks that the authority faces. The S151 has determined that the overall level of reserves is deemed reasonable and prudent when compared to the risk assessment set out in the budget and the level of savings required to be identified and achieved over the medium term.</p> <p>The impact of the McCloud judgement and the refusal to allow the government the appeal the judgement will have significant financial implications. These will only be able to be quantified once the Employment Tribunal considers the repatriations necessary and how this will be implemented. It is not yet clear whether any Government funding will be provided to mitigate this additional cost.</p>	<p>Auditor view</p> <p>On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p>

Value for Money – Financial Resilience & Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

Management have responded to the questions we set out on going concern in our “Informing the Audit Risk Assessment” document which confirms:

- There are no events, of which they are aware, that could cause sufficient material uncertainty to cast significant doubt on the Authority's ability to continue as a going concern. This extends but is not limited to at least twelve months from the Balance Sheet date.
- The Authority monitor cash flow on a daily basis, including maintaining an up to date forecast position for at least the next 12 months. These cash flow forecasts covering over 14 months from July 2019 do not indicate any material uncertainty relating to the Authority's continuing ability to meet financial obligations.
- Excluding the impact of the pension liability, the Authority, has a strong balance sheet, with cash and cash equivalents of £40.3 million.

Auditor commentary

CIPFA Code of Practice 2018/19 Code para 3.4.2.23 states "Local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future".

The presumption in local government is that the going concern assumption does apply unless there is specific evidence to the contrary from factors such as an announcement to wind up the authority, failure to set a balanced budget, external assessment concludes unsustainable, financial plans show unable to meet obligations for foreseeable future or significant doubts over forward financial planning arrangements.

Management's assessment has considered these areas and concluded that no material uncertainty in respect of going concern exists. In addition based on our own knowledge of the Authority we are aware that the Authority has set an "approved budget" for 2019/20 and has a longer term financial plan. The cashflow forecast does not indicate any signs of significant financial difficulty that would cause concern.

As such we consider that the assessment undertaken by the Authority on going concern is a reasonable and valid one and there are no indications of material uncertainty.

Work performed

- Detailed audit work performed on management's assessment

Auditor commentary

- Our audit did not identify any events or conditions which may cast significant doubt on going concern assumption.
- Excluding the impact of the pension liability, the Authority, has a strong balance sheet, with cash and cash equivalents of £40.3 million.
- The Authority has mainly PWLB debt £33.112 million plus £2.585 million non-PWLB debt and there is no requirement to borrow further to meet any immediate liabilities falling due.
- The Authority set a budget in line with local government requirements for 2019-20.
- Management have confirmed that at the end of Month 2 the Authority is on track to achieve the savings approved as part of the 2019/20 budget setting process. There are a number of spend pressures emerging for the year but mitigating action is being taken where possible.

Concluding comments

Auditor commentary

We propose to issue an unmodified opinion for 2018/19.

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No non-audit services were identified.

Fees

We confirm below our final fees charged for the audit.

Audit Fees

	Proposed fee	Final fee
Authority Audit	£29,750	£29,750
Total audit fees (excluding VAT) as reported in the Audit Fee Letter	£29,750	£29,750
Fee Variations:		
Assessing the impact of the McCloud ruling - The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements.	£1,500	
Pensions – IAS 19 - The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	£1,500	
PPE Valuation – work of experts - The Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£1,000	
Revised Total audit fee (excluding VAT)	£33,750	£33,750

The revised fee for the year is subject to approval by Public Sector Appointments Ltd (PSAA) and has resulted from national issues outside of the Authority's control.

No non-audit or audit related services were undertaken for the Authority.

Audit opinion

We anticipate we will provide the Authority with an unmodified audit report

Independent auditor's report to the members of West Midlands Fire and Rescue Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of West Midlands Fire and Rescue Authority (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and Notes to the Core Financial Statements, including a summary of significant accounting policies, and include the firefighters' Pension Fund Account, the Net Assets Statement and the Notes to the Pension Fund Account. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Treasurer is responsible for the other information. The other information comprises the information included in the Financial Statements set out on pages 7 to 19, the Narrative Report, and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the Financial Statements, the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Audit opinion

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Treasurer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 20 to 21, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Treasurer. The Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Treasurer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Risk Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered

material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

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

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve

Audit opinion

planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements – Certificate

We certify that we have completed the audit of the financial statements of the West Midlands Fire and Rescue Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Richard Percival, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

DATE

