

Annual Audit Letter

West Midlands Fire and Rescue Authority

Audit 2009/10

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

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

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (page 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 9).**

Audit opinion and financial statements

1 West Midlands Fire and Rescue Authority ('the Authority') has sound arrangements for the production of its financial statements. I issued an unqualified audit opinion on the Authority's accounts. I reported details of the minor issues arising from my audit to the Authority meeting on 20 September 2010.

Value for money

2 I issued an unqualified value for money conclusion. I concluded that the FRA has adequate arrangements for securing economy, efficiency and effectiveness. In reaching this conclusion, I drew on the work I had undertaken on the use of resources assessment prior to May 2010, when work on this assessment ceased as a result of a government announcement.

3 My work on use of resources demonstrated that your arrangements had continued to improve. Significant improvements included:

- Enhancements to medium term financial planning; and
- Improvements to the use of risk management.

4 One area, use of natural resources, was assessed for the first time in 2010. I found that there was good awareness of the Authority's impact on the environment with a sound strategic approach in place backed with a range of practical initiatives. Officers are already aware of the need for more work to improve the measurement of environmental impact and assess the success of initiatives.

Current and future challenges

5 Your current financial position is sound, with an appropriate general fund reserve balance of £4.7million on 31 March 2010 and no reliance placed on use of reserves in setting the 2010/11 budget. Financial performance in 2010/11 is within budget.

6 Your sound financial position means that you are relatively well placed to meet the challenges arising from the recently published Comprehensive Spending Review. However, you will need to continue to challenge yourselves to look for efficiency savings whilst delivering positive outcomes in your priority areas.

Financial statements and annual governance statement

The Authority's financial statements and annual governance statement are an important means by which the Authority accounts for its stewardship of public funds.

I gave an unqualified opinion on the Authority's 2009/10 financial statements on 22 September 2010, well within the statutory target date.

Overall conclusion from the audit

7 The Authority has sound arrangements for the production of its financial statements and I issued an unqualified audit opinion.

8 I did not identify any material errors during the course of my audit and there were few non-material errors. Where I identified errors, other than those of a clearly trivial nature, officers have corrected them.

Significant weaknesses in internal control

9 I did not identify any significant weaknesses in your internal control arrangements.

International Financial Reporting Standards

10 During 2009/10 the Authority has been required to take the first steps towards implementation of International Financial Reporting Standards (IFRS), and good progress is being made.

11 Experience from the implementation of IFRS in the NHS, where the timescale was a year earlier, suggests that restating the 2009/10 accounts using IFRS well in advance of the preparation of the 2010/11 accounts is a crucial step for the authority. This 'dry run' gives the opportunity to identify any contentious issues and resolve them in advance of the time-pressured 2010/11 closedown process. Officers have made plans for this restatement and we will feed in our views at an early stage to minimise the risks of any subsequent disagreements.

Value for money

I considered whether the Authority is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

12 At the end of May 2010, the Commission wrote to all chief fire officers to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

13 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

14 I report my findings from the work I have carried out to support the VFM conclusion, including the use of resources themes, below.

VFM conclusion

15 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

16 I issued an unqualified conclusion stating that the Authority had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources. The summary of my findings is shown in the table below.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good Governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes
Strategic asset management	N/A
Workforce	Yes

Use of Resources

Managing Finances

17 The Authority has a good track record of operating within its budget while maintaining good service performance. Budget monitoring is effective, with a formal scheme of budget delegation. Budget monitoring and forecast information is reliable, relevant and understandable, whilst reporting is improving to include integrated financial and performance information.

18 The statutory milestones were met for the approval of accounts with good quality working papers. The most recent accounts and annual audit letter are available on the authority's website. The annual report provides a clear explanation of performance against targets.

19 The Authority has integrated its financial, strategic and service planning over the medium to long-term. The Corporate Strategy explicitly ties the Medium Term Financial Plan (MTFP) to the goals in the Corporate Plan. The MTFP identifies the scale of any efficiency savings that are needed.

20 The Authority has a clear understanding of its overall costs against performance and is developing finer detail. Costs are lower than similar sized authorities and performance has improved significantly. Resources follow priorities. However, it is not clear how improved performance is linked

to investment and methods of evaluating the impact of spending decisions are still developing. The Authority cannot therefore demonstrate the impact of its robust VFM strategy.

21 The Authority takes account of costs and performance in decision making and commissioning. Best Value reviews have contributed to the overall improvement in performance and cost efficiencies. The Authority has improved performance whilst delivering savings and maintaining a cost base which compares favourably to its peer group.

Governing the Business

22 The Authority commissions and procures quality service and has a clear vision of intended outcomes. It involves stakeholders in service delivery with a commitment to equality and it focuses service delivery, such as Home Safety Checks, on the most vulnerable.

23 There are effective arrangements to improve customer experience and levels of satisfaction are high. Procurement arrangements are well developed and are providing value for money. The Authority is using the 'Rising to the Challenge' analysis as a platform for improvement.

24 The Authority has good quality data to support management processes. There is a robust performance management framework in place.

25 There is a strong commitment to compliance with statutory requirements for data security and data sharing protocols are in place with key partners. The Authority has a strong record of delivering improvement and is continuously improving its approach to managing its information and performance.

26 Governance arrangements are well developed and embedded. They are based on recognised best practice. There is a clear ethical framework and code of conduct. Conflicts of interest and receipt of any gifts are routinely declared. The governance of partnerships is developing.

27 Members and officers have clear roles and responsibilities. Working relationships are effective. Members are becoming more engaged with policy development but there is scope for further improvement in the approach to member development.

28 The Authority effectively manages risk and has a sound system of internal control. Risk management arrangements have improved since the last assessment and are now a central part of strategic management. The risk register reflects the latest best practice. Business continuity plans are in place. The Audit Committee is becoming more effective. There are comprehensive counter fraud and corruption arrangements in place.

Managing Resources

29 The Authority is demonstrating a clear commitment to environmental issues. It has had a policy and strategy in place for some years and is developing an overarching Environmental Delivery Plan. It has set some

explicit targets but has yet to complete all baseline assessments and adopt a full range of improvement targets. The Authority has been working closely with the Carbon Trust and has a baseline carbon footprint for its premises.

30 The Authority effectively engages staff on environmental issues through champions, who promote its strategy, newsletters and excellent posters. It has worked with others, for example Groundworks, to identify the impact of its operations. The Authority understands where it is making the most serious impacts on the environment and has put in place initiatives and is adapting its service delivery arrangements to tackle these challenges.

31 The Authority can demonstrate outcomes for some of its actions to date. It has set longer term carbon reduction targets. Carbon footprints for all its sites, operations and HFSCs have been assessed for two consecutive years and this identified an actual increase in carbon contribution of about 17 percent over the two years (10,000 tonnes compared to 8500 tonnes the previous year). At the time of our work, the outcomes of the most recent evaluation were awaited and there was an expectation that the trend would be reversed with significant impacts being achieved from the various reduction measures which had been implemented.

32 The Authority has effective arrangements to secure a productive and skilled workforce. Training and development is extensive and high quality. Succession planning and talent management is developing. The Authority has an appropriate approach to workforce planning and has achieved reduced sickness absence levels through more effective management. The Authority manages change with staff with clear examples of engagement. A Human Resources strategy is in place and is integrated with corporate objectives. Equality impact assessments are comprehensive and Level 3 of the Equality Standard is achieved.

Approach to local value for money work from 2010/11

33 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local VFM audit work. The Commission aims to introduce a new, more targeted and better value approach to VFM audit work.

34 My work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

35 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Authority in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Financial prospects

36 Your current financial position is sound, with a general fund reserve balance of £4.7million on 31 March 2010, which equates to approximately 3.75 per cent of the net cost of services, within the target range which you have set. In addition, you have earmarked reserves of £12.8million. No reliance was placed on use of reserves in setting the 2010/11 budget.

37 Financial performance in 2010/11 is within budget, with a net underspend of £0.8m reported up to 31 August.

38 Your sound financial position means that you are relatively well placed to meet the challenges arising from the recently published Comprehensive Spending Review (CSR). This envisages a 13 per cent real terms reduction in fire expenditure by 2014/15, with a 25 per cent reduction in formula grant funding over this period. You will need to identify significant levels of efficiency savings to achieve the required reductions without compromising outcomes. In recognition of the time needed to implement such efficiencies, the savings targets set out in the CSR are 'back loaded' to 2013/14 and 2014/15, but this does not lessen the need for immediate action to identify how savings can be made.

Closing remarks

39 I have discussed and agreed this letter with the Chief Fire Officer and the Director of Finance and Procurement. I will present this letter at the Authority meeting on 13 December 2010 and will provide copies to all Authority members.

40 The Authority has taken a positive and helpful approach to my audit. I wish to thank all the Authority's staff for their support and cooperation during the audit.

John Gregory
District Auditor
November 2010

Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements, annual governance statement and whole of government accounts	59,827	59,827	0
Use of resources and value for money conclusion	28,023	28,023	0
Total audit fees	87,850	87,850	0
Non-audit work	0	0	0
Total	87,850	87,850	0

Appendix 2 – Glossary

Annual governance statement

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

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

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

Audit opinion

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

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

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

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

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