



# Audit Committee Update for West Midlands Fire & Rescue Authority

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**Year ended 31 March 2014**

January 2014

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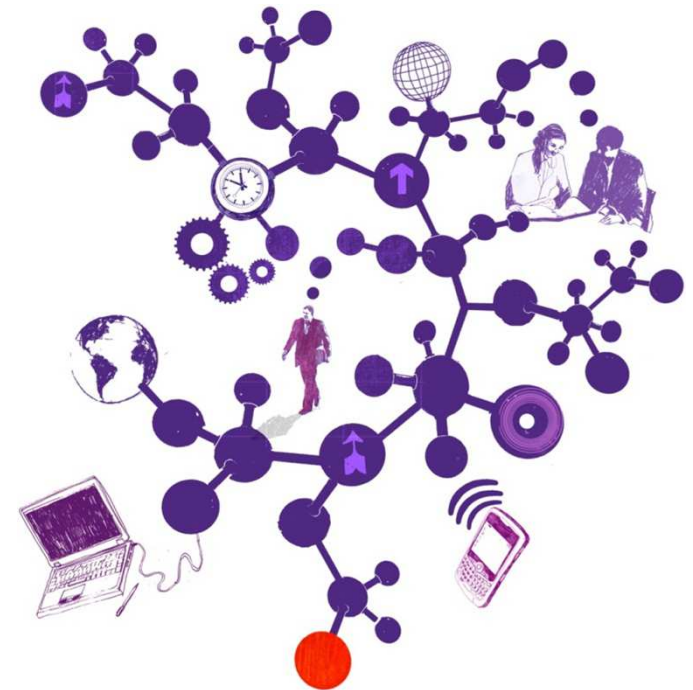
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# Introduction

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 Authority;
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

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 Audit Manager.

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## Progress to date

Work	Planned date	Complete?	Comments
<b>2013-14 Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Fire Authority setting out our proposed approach in order to give an opinion on the Fire Authority's 2013-14 financial statements.	January 2014		This will be completed once the initial work on systems has been completed to inform the detailed risk assessment. Audit Plan expected to be completed by the end of January.
<b>Interim accounts audit</b> Our interim fieldwork visits include: <ul style="list-style-type: none"> <li>• updating our review of the Fire Authority's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• proposed Value for Money conclusion.</li> </ul>	December 2013 – March 2014		Key risks for 2013/14 will include: <ul style="list-style-type: none"> <li>• The delivery of services within a reduced financial allocation, ensuring that budget reductions do not impact on services delivered.</li> <li>• Use of assets – development of the control room partnership and utilisation of the main Head Quarters building.</li> </ul> We will meet with Internal Audit to discuss the scope of their work in 2013/14 and seek to place reliance where possible.  We undertook a meeting in early December 2013 to discuss and review the final accounts process in 2012/13 to identify improvements which will support the 2013/14 experience.
<b>2013-14 final accounts audit</b> Including: <ul style="list-style-type: none"> <li>• audit of the 2013-14 financial statements</li> <li>• proposed opinion on the Fire Authority's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	June – September 2014		Not yet started

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## Progress to date

Work	Planned date	Complete?	Comments
<b>Value for Money (VfM) conclusion</b> The scope of our work to inform the 2013/14 VfM conclusion requires conclusions on whether: <ul style="list-style-type: none"><li>• The organisation has proper arrangements in place for securing financial resilience.</li><li>• The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</li></ul>	January – July 2014		Key risks for 2013/14 will include: <ul style="list-style-type: none"><li>• The impact in changes to Senior Management on the Fire Authority's overall strategic direction.</li><li>• Maintaining services delivery around potential strike action and negotiations with the Fire Brigade Unions over pension issues.</li></ul>

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# Emerging issues and developments

## Sector issues

### Fire Fighter Pensions Review

On 24 May 2012, the Department published a [Proposed Final Agreement](#) on the scheme design for the Fire fighters' Pension Scheme in England to be introduced from April 2015. The Proposed Final Agreement builds on the proposals brought forward by Lord Hutton in his independent report and aims to strike a deal between public service workers and the taxpayer. The Government has already increased employee contribution rates in respect of both fire-fighter pension schemes over the last two years.

Alongside the reforms process, the Department is also making amendments to both the 1992 and 2006 fire-fighter pension schemes as part of an on-going programme of modernisation of the fire-fighter pension schemes.

Challenge questions:

- Have you reviewed the report and formally commented during the consultation period ?
- What actions have you put in place to deal with the FBU responses to the proposals and the effect on service delivery.

If you have any queries on governance, talk to your audit manager to see how Grant Thornton could help.

# Emerging issues and developments

## Sector issues

### Future Control Room Services Scheme: Summary 'national picture'

On 27 September, the Department for Communities and Local Government published an updated national [Future Control Room Services Scheme Summary](#). Based on updated information supplied by the fire and rescue authorities, this document provides a high-level national summary of the improvements being made by fire and rescue authorities to their control room services, the delivery timescales and the projected savings.

In March 2012, DCLG approved funding and published a summary of the plans for fire and rescue authorities locally determined projects to improve their control room arrangements. It was clear that at this stage the proposed projects were at varying stages of development. At that time, the projected completion dates and forecasted savings were very early estimates. It is therefore reasonable to expect that a number of the projects would change, either through the partners within the projects changing, or in terms of timescales or forecasted savings.

The information presented in this latest summary demonstrates that:

- the projects are now making clear and steady progress;
- there have been no further changes in terms of partnerships, reflecting that plans have firmed up and the focus is on delivery;
- there has been significant progress in delivering the resilience benefits;
- projected savings have increased by £500,000 since the last update;
- while there has been, predictably, some fluctuation in the estimated completion dates, a number of dates have been brought forward.

The next refresh will be published in March 2014.

Challenge questions:

- Have you reviewed the summary report and does the information reported for Staffordshire and West Midlands reflect your current understanding of the project's progress?
- Are you satisfied that the project remains on course to deliver the savings and benefits set out in the initial baseline submission?

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# Emerging issues and developments

## Sector issues

### Sir Ken Knight's review of efficiencies and operations in fire and rescue authorities in England – 6 months on

On 17th May 2013 Sir Ken Knight presented his review to the Minister for Fire, Brandon Lewis. The independent report [Facing the Future](#) was published on the Government website. The Fire Minister stated that Sir Ken's report presented some fascinating analysis and interesting questions for everyone involved in fire and rescue. He confirmed that the Government would be responding to the review in the Autumn and that he was interested in hearing views on the review from fire and rescue authorities and other partners.

The Minister and Sir Ken both encouraged the sector to seize the initiative where they saw things in the review that may work for them, and said that the sector should not be waiting for the Government response before acting.

Challenge questions:

- What impact has this review had on your Authority's overall strategic direction?
- What outcomes can be seen in actions which were initially taken following the publication of this review?
- Are you confident that the momentum of this report is being maintained at a Senior level within the Authority?
- Are the Authority planning to revisit this report to reflect on progress against the key findings?

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# Emerging issues and developments

## Governance issues

### Potential for procurement fraud

The Chancellor's Spending Round announcement earlier this summer has forced authorities to make further cuts to their budgets and operate under tighter constraints.

As Chris Clements, Head of Public Sector Forensics at Grant Thornton UK LLP, wrote in Local Government News, the National Fraud Authority estimates that in the wider public sector, the cost of fraud reached a staggering £19.9bn this year. Procurement fraud in local government accounted for £876m of this amount and therefore a properly functioning procurement process is key to mitigating much of this risk of loss.

'Helping ensure people are not in a position where they are tempted by an opportunistic gain is vital. Employees feeling undervalued – either financially or on account of other motivating factors – can breed an atmosphere of despondency which allows for procurement fraud. Sometimes all it takes is one exploratory incident by an individual to snowball into a culture wide acceptance of fraud, where employees not only rationalise the activity, but are spurred on by other actions.'

Challenge questions:

- Does your authority have a properly functioning procurement process, where duties are clearly segregated?
- Does your authority maintain an adequate whistleblowing mechanism for whistleblowing, whereby employees feel they are able to report their suspicions in a safe and secure manner?

If you have any queries on procurements processes and/or procurement fraud, talk to your audit manager to see how Grant Thornton could help.

# Emerging issues and developments

## Governance issues

### Making public sector procurement more accessible to Small and Medium sized Enterprises

In May 2013, the Prime Minister's advisor on enterprise and small business, Lord Young, recommended developing a single set of principles to be applied by all public bodies in their procurement to make the process simpler and more accessible to businesses. A copy of the full report can be found at: [Making public sector procurement more accessible to Small and Medium sized enterprises](#)

A consultation on the high-level standards, which all public bodies, including fire and rescue authorities, should be looking to achieve, was published on 19 September 2013. This consultation describes the single market principles, which suppliers should expect when doing business with the public sector. These principles should simplify and standardise the advertising, bidding and payment of public contracts, and should remove the complexity, cost and inconsistency when trying to sell to more than one public sector body. They would apply to businesses as direct contractors with government and as sub-contractors or partners in a procurement supply chain. Adoption of these principles will require commitment and cooperation from procurers and suppliers alike.

The consultation proposals include:

- introducing a requirement for all public sector contracts over £10,000 to be accessible on the same site banning burdensome pre-qualification questionnaires for low value public sector contracts, and introducing a single standardised requirement for high value contracts;
- ensuring suppliers further down the supply chain benefit from the same standard payment terms that public bodies offer prime contractors to ensure prompt payment for public sector work

Responses to the consultation were required by 17 October 2013 and will help to support and develop the toolkit that sits outside of Government. DCLG will be circulating a short questionnaire to all fire and rescue authorities about their current level of usage of the toolkit. This questionnaire will be distributed in late October / early November 2013.

Challenge questions:

- Did your Authority submit a response to the consultation on this matter?
- Are you planning to complete the questionnaire on your current level of usage of the toolkit?

# Emerging issues and developments

## Accounting and audit issues

### Simplifying and streamlining the presentation of local authority financial statements

Both HM Treasury and CIPFA/LASAAC have recently consulted on how to streamline and simplify local authority financial statements. In our response, we set out our view that streamlining is a collaborative process involving standard setters, preparers of the accounts and auditors. This requires a much needed change in culture and attitude from the accounting and auditing profession as a whole.

However, there is much that can be done now. In his October article in [Room 151](#), the on-line local authority finance publication, Graham Liddell, Grant Thornton's National Technical Lead sets out the practical steps local authorities can take to:

- learn the lessons from 2012/13 to improve the preparation and audit of the financial statements for future years
- de-clutter their accounts using the previous year's financial statements as the starting point

Graham notes that Grant Thornton has been working with a range of local authorities to achieve these goals. One council audited by Grant Thornton succeeded in producing a set of financial statements in 2012/13 that were only half the length of those for 2011/12 and were much easier to follow.

#### Challenge questions:

- How are you planning to improve the preparation of your financial statements for 2013/14?
- Do your financial statements provide a clear overall picture of the financial performance of your authority?
- Has your Director of Resource and Procurement carried out a de-cluttering exercise to ensure that disclosures are relevant, material and up to date?

# Emerging issues and developments

## Accounting and audit issues

### Consultation on Local Authority Accounting Code of Practice for 2014/15

CIPFA/LASAAC's consultation on the Local Authority Accounting Code of Practice for 2014/15 closed in October.

In our response we noted that the complexity of international financial reporting standards (IFRS) inevitably means that it is increasingly difficult to construct a Code that is comprehensive, of reasonable length and fit for purpose. We suggested that the Code of Practice follows the approach adopted by the Treasury in the Financial Reporting Manual under which bodies are required to follow the relevant accounting standard other than where there are specified formal adaptations or interpretations. This would result in a much shorter simpler Code with local authorities referring directly to the underlying standards themselves. This approach is consistent with that adopted in the NHS, where the accounting manuals do not seek to repeat text from accounting standards.

In respect of the some of other key consultation issues which are relevant to your authority, our views are:

- IFRS 13 - the Code should follow the principles of IFRS 13 as closely as possible. We regard it as important that there is a common application of fair value by all bodies preparing accounts under IFRS.

Challenge question:

- Has your Director of Resource and Procurement reviewed the proposed amendments to the 2014/15 Code and assessed the potential impact?

# Emerging issues and developments

## Accounting and audit issues

### Property plant and equipment revaluations

The 2013/14 Code of Practice on Local Authority Accounting changes the requirements for the frequency at which authorities are required to carry out valuations of property plant and equipment. Previously the Code permitted valuations to be carried out on a rolling basis over a maximum of 5 years. The 2013/14 Code now restricts this option by requiring:

- revaluations to be sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period
- items within a class of property, plant and equipment to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates.

However, the Code permits assets within the same class to be revalued on a rolling basis provided the revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. There is no definition of 'a short period' but the Code's requirement to avoid reporting a mixture of costs and values as at different dates suggests that to comply with the Code, all assets within a particular class should be valued within the same financial year.

#### Challenge questions

- Are both your Director of Resource and Procurement and your professional advisors satisfied that your revaluation programme is sufficiently regular to ensure that the carrying amount of Property, Plant and Equipment at 31 March 2014 will not differ materially from that which would be determined using the fair value at that date?
- Has your Director of Resource and Procurement reviewed the changes to the 2013/14 Code and implemented a valuation process to ensure your authority complies with other aspects of the Code requirements?
- Where your authority is unable to comply fully with the Code in 2013/14, are you satisfied that any non-compliance is immaterial and has an action plan been put in place to address non-compliance issues in future years?

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# Emerging issues and developments

## Accounting and audit issues

### Public briefing on the Local Audit and Accountability Bill

In September, the Audit Commission published a [briefing note on the Local Audit and Accountability Bill](#). The Bill is currently going through Parliament.

The briefing provides background information on the Bill as well as a view on the areas where the Audit Commission believe that the Bill can be further improved. These areas are:

- collective procurement arrangements
- audit appointment arrangements
- the National Fraud Initiative
- small bodies
- supporting accountability to Parliament and the public
- reporting on arrangements to secure value for money
- updating the legislative framework governing local public audit.

Challenge question:

- Have you considered how the proposed audit arrangements under the Draft Local Audit Bill will affect you?



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