

Audit plan

West Midlands Fire and Rescue Authority

Audit 2010/11

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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Introduction

This plan sets out the audit work that I propose to undertake for the audit of financial statements and the value for money conclusion 2010/11.

1 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

2 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

3 I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

Fee for the audit

The fee for the audit is £93,326

4 The Audit Commission scale fee for the Authority is £94,250. The initial fee proposed and agreed for 2010/11 was £93,326, 1 per cent below the scale fee and within the normal level of variation specified by the Commission.

5 Since agreeing the above fee, the Audit Commission has announced two rebates to the fee:

- a rebate of £5,790 for International Financial Reporting Standards (IFRS) implementation; and
- a rebate of £1,414 for the proposed new arrangements for local value for money audit work.

6 The net fee is therefore reduced and is £86,122 (excluding VAT).

7 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- good quality, accurate working papers are available at the start of the financial statements audit;
- the Authority will supply good quality working papers to support the restatement of 2009/10 balances to comply with IFRS implementation; and
- Internal Audit undertakes appropriate work on all material systems and this is available for our review by the mutually agreed timescale.

8 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Director of Finance and Procurement. I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

9 Further information on the basis for the fee is set out in appendix 1.

Auditors report on the financial statements

I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

10 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Authority as at 31 March 2011.

Materiality

11 I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying opinion audit risks

12 I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Authority, including assessing your own risk management arrangements;
- considering the financial performance of the Authority;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Authority's information systems.

Identification of specific risks

I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1: **Specific risks**

Specific opinion risks identified

| Risk area | Audit response |
|---|--|
| Implementation of IFRS | We will work with the Authority to review progress made. We will audit the revised 2009/10 opening balances to ensure relevant changes required have been properly implemented. In reviewing the 2010/11 financial statements, we will carry out specific testing which focuses on the areas where changes result from implementation of IFRS. |
| Fixed Asset valuations. The Authority is planning to undertake a full valuation of Assets for 2010/11 to aid with the implementation of IFRS. | We will consider the reasonableness of valuations held in the Authority's Balance Sheet and review the instructions issued to the valuer. Also we will obtain direct confirmation to help ensure the objectivity, independence and competence of the valuer as an expert. |
| In documenting your financial systems, we were unable to confirm if there were controls in place to check the accuracy of the brought forward balances. The Authority places reliance on the Sandwell MBC ledger to accurately carry forward balances. | We will carry out testing to ensure that balances brought forward are correctly stated. |

Testing strategy

On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.

13 I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

14 Wherever possible, I will complete some substantive testing earlier in the year, before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- Review of accounting policies.
- Bank reconciliation.
- Year-end feeder system reconciliations.

15 Where I identify other possible early testing, I will discuss it with officers. Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities.

16 I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of other auditors in the following areas.

- External auditor of Sandwell Council (KPMG) for Sandwell systems used by the Authority.
- External auditor of the West Midlands LG pension scheme (PwC).

17 I also plan to rely on the work of the experts listed below for the valuation of fixed assets, and the valuation of the Fire Fighters Pension Fund held by the Authority.

- Wilkes Head and Eve, valuers.
- Government Actuary's Department.

Value for money conclusion

I am required to give a statutory VFM conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

18 The VFM conclusion is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience and
- challenging how the Authority secures economy, efficiency and effectiveness.

19 My VFM audit work will be based on a risk assessment against the above criteria. We anticipate undertaking our risk assessment in March 2011 and will discuss the results and further work required with officers after this. At this stage, we do not expect to identify major risks but we will need to update our understanding of your short and medium-term financial situation in order to assess your financial resilience. We will provide the VFM conclusion at the same time as our opinion on the financial statements.

Key milestones and deadlines

The Authority is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

20 The key stages in producing and auditing the financial statements are in table 2.

21 I have agreed a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

22 Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 2: **Proposed timetable**

| Activity | Date |
|---|-----------------------|
| Control and early substantive testing | January to March 2011 |
| Receipt of accounts | 27 June 2011 |
| Sending audit working papers to the auditor | 27 June 2011 |
| Start of detailed testing | 4 July 2011 |
| Progress meetings | Weekly |
| Present report to those charged with governance | 19 September 2011 |
| Issue opinion and value for money conclusion | By 30 September 2011 |

The audit team

Table 3 shows the key members of the audit team for the 2010/11 audit.

Table 3: **Audit team**

| Name | Contact details | Responsibilities |
|---------------------------------------|---|---|
| John Gregory District Auditor | j-gregory@audit-commission.gov.uk 0844 798 1143 | Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with senior officers and members. |
| Pragati Raithatha Audit Manager | p-raithatha@audit-commission.gov.uk 0844 798 3959 | Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance and Procurement |
| Lorraine Noak Team Leader | l-noak@audit-commission.gov.uk 0844 798 3971 | Responsible for leading the detailed work on the audit. |

Independence and objectivity

23 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

24 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in appendix 2.

Meetings

25 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in appendix 3.

Quality of service

26 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

27 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

28 My team will discuss and agree reports with the right officers before issuing them.

Table 4: **Planned outputs**

| Planned output | Indicative date |
|--|---------------------------|
| Annual governance report | Draft by 30th August 2011 |
| Auditor's report giving an opinion on the financial statements | 30 September 2011 |
| Annual audit letter | 30 November 2011 |

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Authority with reference to:

- my cumulative knowledge of the Authority;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
- interviews with the Authority's officers; and
- liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed the following.

- The level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10.
- You will inform me of significant developments impacting on the audit.
- Internal Audit meets the appropriate professional standards.
- Internal Audit undertakes appropriate agreed work on all systems that provide material figures in the financial statements sufficient that I can place reliance for the purposes of our audit.
- You provide:
 - good quality working papers and records to support the financial statements by 27 June 2011;
 - information asked for within agreed timescales; and
 - prompt responses to draft reports.
- There is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Full Authority.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as

being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 Working together

Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

My proposal for the meetings is as follows.

Table 5: **Proposed meetings with officers**

| Authority officers | Audit Commission staff | Timing | Purpose |
|-------------------------------------|-----------------------------------|---|---|
| Director of Finance and Procurement | AM and Team Leader (TL) | March and August | General update plus: <ul style="list-style-type: none">■ March - audit plan; and■ August - annual governance report. |
| Finance Manager | AM and TL | Quarterly Weekly during accounts audit | Update on audit issues. Progress on accounts audit. |
| Audit Committee/Full Authority | DA and AM, with TL as appropriate | As determined by the Committee | Formal reporting of: <ul style="list-style-type: none">■ Audit Plan;■ Annual governance report; and■ other issues as appropriate. |

Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

Appendix 4 Glossary

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements.

Significance has both qualitative and quantitative aspects.

Members

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also ‘Those charged with governance’ and ‘Audited body’.)

Regularity (of expenditure and income)

Whether, subject to the concept of materiality, the expenditure and income of the audited body have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

Remuneration report

Audited bodies are required to produce, and publish with the financial statements, a remuneration report that discloses the salary and pension entitlements of senior managers.

Statement on internal control

Local government bodies are required to publish a statement on internal control (SIC) with their financial statements (or with their accounting statements in the case of small bodies). The disclosures in the SIC are supported and evidenced by the body's assurance framework. At local authorities the SIC is known as the Annual Governance Statement and is prepared in accordance with guidance issued by CIPFA. Police authorities also produce a SIC in accordance with relevant CIPFA guidance. Local probation trusts are required to prepare a SIC in accordance with the requirements specified by HM Treasury in Managing Public Money.

Those charged with governance (TCWG)

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'.

In local government bodies, those charged with governance, for the purpose of complying with auditing standards. For police or fire authorities TCWG can be the full authority, audit committee (where established) or other committee with delegated responsibility for approval of the financial statements;

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider to be most appropriate.

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



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