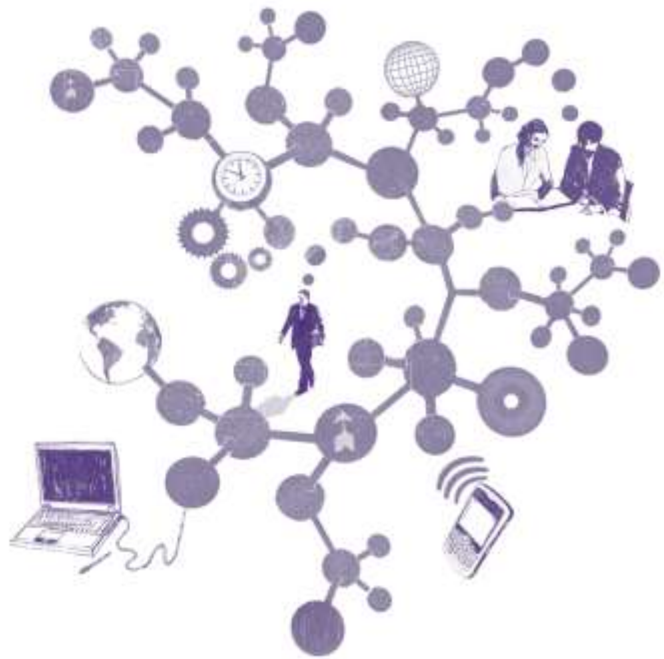
The Audit Findings
for West Midlands Fire and Rescue Authority

Year ended 31 March 2017

July 2017



Richard Percival
Engagement Lead
T 0121 232 5434
E richard.d.percival@uk.gt.com

Emily Mayne
Senior Manager
T 0121 232 5309
E emily.j.mayne@uk.gt.com

Steph Quartermaine
Executive
T 0121 232 5238
E steph.quartermaine@uk.gt.com

Grant Thornton

Private and Confidential

West Midlands Fire and Rescue Authority
99 Vauxhall Road
Birmingham
B7 4HW

Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
Birmingham
West Midlands
B4 6AT

[T +44] (0) 121 212 4000
www.grant-thornton.co.uk

July 2017

Dear Members of the Audit Committee

Audit Findings for West Midlands Fire and Rescue Authority for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of West Midlands Fire and Rescue Authority, the Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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.

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 primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

Richard Percival

Engagement lead

Contents

Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of West Midlands Fire and Rescue Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under 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 give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Authority acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Authority or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Authority and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of final signed Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Authority's reported financial position. The draft financial statements for the year ended 31 March 2017 recorded total comprehensive expenditure of £306,874,000. This overall deficit was mainly due to changes in the valuation of the pension liability in 2016/17.

We also identified a relatively small number of disclosure errors, and requested some adjustments to improve the presentation of the financial statements. These changes were agreed and have been made in the final version of the accounts. Those of note are detailed in section two of this report.

The key messages arising from our audit of the Authority's financial statements are:

- Good quality draft accounts were presented for audit by 31 May 2017, a month earlier than the current submission deadline
- Working papers supporting the accounts were of an excellent quality
- Finance staff responded promptly to all audit queries
- The audit was delivered in the agreed timescale enabling sign off by the 31 July 2017, which places the Authority in strong position for the timescales being introduced in 2017/18.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix A).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the Annual Governance Statement (AGS) and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Authority's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

The Authority's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Authority.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Next steps

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Strategic Enabler of Finance and Resources.

We have not made any recommendations in this report. Where we have identified opportunities for Management to strengthen processes we have reported and agreed these directly with the Strategic Enabler of Finance and Resources.

Acknowledgement

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.

Grant Thornton UK LLP
July 2017

Section 2: Audit findings

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £2,260,000 (being 2% of gross revenue expenditure). We considered whether this level remained appropriate during the course of the audit and made no changes to our overall materiality. We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £113,000. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing in excess of £20,000 would be deemed to have implications on the users understanding of the financial statements.
Related party transactions	Related party transactions have to be disclosed if they are material to the fire authority or to the related party.	Any errors identified by testing will be assessed individually, with due regard given to the nature of the error and its potential impact on users of the financial statements. We are unable to quantify a materiality level as the concept of related party transactions takes in to account what is material to both the Authority and the related party.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at West Midlands Fire and Rescue Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • 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 and Rescue Authority, mean that all forms of fraud are seen as unacceptable.	Our audit work has not identified any issues in respect of revenue recognition.
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	• We have reviewed the journal control environment and not identified any significant control weaknesses. • We have tested key journal entries and not found any items which impacted on our opinion. • We have reviewed the accounting estimates, judgements and decisions made by management. • We have reviewed any unusual, significant transactions and not identified anything which would impact on our opinion.	Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks (continued)

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Valuation of pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.	• Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.	Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention, that being: • Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: • We have documented our understanding of processes and controls in place around the accounting for operating expenses. • We have carried out a walkthrough test to confirm the operation of controls were in line with our documented understanding • We have tested the completeness of the subsidiary system (purchase ledger) and how it interfaces with the ledger. • We have documented the processes in place for month and year end accruals. • We have performed cut off testing of purchase orders and goods received notes. • We have reviewed a schedule of goods received that have not yet been invoiced and concluded that they are below materiality and as such do not present a risk to the financial statements. • We have performed testing of a sample of operating expenses to ensure they have been accurately accounted for and in the correct period.	Our audit work has not identified any significant issues in relation to the risk identified.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Fire Pensions Benefits Payable	Benefits improperly computed / Claims liability understated Payments to retiring officers are low in volume but high in value and the Authority is reliant on effective controls to ensure the payments made are valid and accurate.	We have undertaken the following work in relation to this risk: • We have documented our understanding of processes and key controls in place around the accounting for Fire Fighters Pensions. • We have carried out a walkthrough test to confirm the operation of controls is in line with our documented understanding. • We have agreed pension disclosures in the financial statements to supporting evidence. • We have tested a sample of Fire Fighters pension payments covering the period 1st April 2016 – 31st March 2017 to ensure they have been accurately accounted for and in the correct period.	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention, that being: • Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: • Documented our understanding of processes and key controls in place around the accounting for Employee Remuneration. • Undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • We have performed a review of monthly trend analysis of payments to identify and investigate any unusual or irregular movements. • We have reviewed the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and to the financial statements. • We have performed substantive testing of employees for accuracy of payment.	Our audit work has not identified any further significant issues in relation to the risk identified.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Changes to the presentation of local authority financial statements	CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.	We have undertaken the following work in relation to this risk: • documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements • reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure • reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) • tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements • reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.	Our audit work has not identified any significant issues in relation to the risk identified.

Going concern

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&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that the going concern basis is appropriate for the 2016/17 financial statements.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The Authority's policy is set out in its accounting policies: • Accounting policy 1.2 – Accruals of income and expenditure • Accounting policy 1.10 – Government grants and contributions.	• The Authority's policy is appropriate and consistent with the relevant accounting framework- the Local Government Code of Accounting Practice. • Minimal judgement is involved. • The accounting policy is appropriately disclosed.	● GREEN
Judgements and estimates	As per accounting policy 4, the key estimates and judgements include: • Pensions liability • Provisions • Property plant and equipment- including valuation and useful lives.	We have not identified any issues in relation to accounting estimates and judgements which we wish to bring to your attention.	● GREEN
Going concern	The Strategic Enabling Team has a reasonable expectation that the services provided by the Authority will continue for the foreseeable future. Members concur with this view. For this reason, the Authority continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Strategic Enabling Team's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	● GREEN
Other accounting policies	We have reviewed the Authority's policies against the requirements of the CIPFA Code of Practice. The Authority's accounting policies are appropriate and consistent with previous years.	Our review of accounting policies has not identified any issues which we wish to bring to your attention.	● GREEN

Assessment
- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

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 Committee. We have not been made aware of any incidents in the period that we need to bring to your attention. No other issues have been identified during the course of our audit.
2.	**Matters in relation to related parties**	• From the work we carried out, we have not identified any 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 standard letter of representation has been requested from the Authority.
5.	**Confirmation requests from third parties**	• We obtained direct confirmations from the Authority's bank and from PWLB for loans.
6.	**Disclosures**	• Our review found no material omissions in the financial statements.
7.	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a number of areas. We have not identified any issues we would be required to report by exception in the following areas: • 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 information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Authority acquired in the course of performing our audit, or otherwise misleading.
8.	**Specified procedures for Whole of Government Accounts**	• 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. This work only requires the minimum tests as the Authority does not exceed the threshold.

Adjusted misstatements

We are required to report all misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

There were no adjustments identified during the audit.

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Disclosure	N/A	Expenditure and Funding Analysis	The following changes were made: • Comment added to clarify that this is not a primary statement but rather a note to the financial statements. • Comment added to clarify that the 'net expenditure chargeable to the General Fund is what was reported to the Strategic Enabling Team.
2	Disclosure	N/A	Note 14 – Prior period of restatement of Service Expenditure and Income	This was updated to include a paragraph clarifying why this note was included following the 2016/17 changes in the Code of Practice on Local Authority Accounting.
3	Disclosure	Various	Note 16.1 & Note 16.4 – Financial instruments	The following amendments were made: • Financial assets (Debtors) – this was amended from £14,156k to £9,047k to reflect the exclusion of the collection fund debtor. • Financial liabilities (Creditors) – this was amended from £8,779k to £4,053k to reflect the exclusion of the collection fund creditor.
4	Disclosure	Various	Various	A small number of other presentational and disclosure amendments have been made.

Section 3: Value for Money

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Authority has put in place 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. The Act and NAO guidance state that for local government bodies, including fire authorities, auditors are required to give a conclusion on whether the Authority has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. 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.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in March 2017 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2017.

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.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Whilst we have not identified any further significant risks for 2016/17 where we need to perform further work we have identified that that the Authority is operating within a dynamic environment as part of the West Midlands. We have therefore considered the future risks facing the Authority to bring our insight to Members.

Significant qualitative aspects

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:

- **Financial resilience** – The Authority has historically managed its finances well and has consistently achieved savings targets. It is on course to deliver the 2017/18 budget. However delivering savings year on year becomes increasingly harder. Further savings of £9.415 million are required in the 4 years 2016/17 – 2019/20. This links to the Authority's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.
- **Partnership working with other emergency services** – There is evidence that the Authority is working in partnership with West Midlands Police and other emergency services where the opportunity arises. There is some uncertainty over what form further collaboration will take and how this will lead to wider integration. Development of the West Midlands Combined Authority Mayoral arrangements and the recent legislative changes is now forcing a faster paced change. This links to the Authority's arrangements for working effectively with third parties to deliver strategic priorities.

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 22 to 23.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Authority had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

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

Recommendations for improvement

We discussed findings arising from our work with management and have not made any recommendations as the Authority is aware of the financial challenges and partnership working risks and is actively managing these.

On page 24 we have highlighted our views on the progress and challenges the Authority is making and facing looking forward. We have discussed these and our findings arising from our work this year with management.

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	Work to address	Findings and conclusions
Financial resilience The Authority has historically managed its finances well and has consistently achieved savings targets. It is on course to deliver the 2016/17 budget. However delivering savings year on year becomes increasingly harder. Further savings of £9.415 million are required in the 4 years 2016/17 – 2019/20. This links to the Authority's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.	We have reviewed the Authority's Medium Term Financial Strategy (MTFS) and financial monitoring reports, assessing the assumptions used.	We are satisfied that information on the Authority's financial position is reported to those charged with governance on a periodic basis and in sufficient detail to allow key decision makers to direct the organisation in the achievement of the three E's. We did not identify any significant weakness in the medium term strategy. The strategy incorporates both financial and non-financial data and acknowledges the funding restraints the authority faces both now and in the future. In December 2016 the Authority received its provisional finance settlement for the three years to 2019/20. Broadly this indicated that central funding will be reduced by £10 million between 2016/17 and 2019/20. The Authority's proposed budget of £94.8 million for 2017/18 has been developed to deliver the vision, priorities, and outcomes set out in The Plan. The main assumption is the annual increase in the rate of Council Tax income by 1.99%. The long term forecast also takes in to account general inflation and price increases (c1% per annum), pay awards and pensions (c1% per annum) and rental increases (c2% per annum). These appear reasonable based on our understanding of the wider economy. To enhance the robustness of the MTFS projections, sensitivity analysis considers the change in key components of the budget. The Authority has also considered the impact of the 100% Business Rate Retention pilot in the West Midlands and fed into the consultation. The Authority is taking a wider view on economic growth impact for the whole area, rather than their own local impact demonstrating an externally facing focus. The Fire Authority set extensive and challenging key performance indicators. Whilst there is over-performance against the KPI for response (relating to the 5 minute attendance target for category 2, 3 & 4 incidents, around a third of the prevention targets have not been met. However, we are satisfied that these are not as a result of deficiencies in the deployment of resources or poor decision making. Sickness levels for both uniformed and non-uniformed / fire control staff is higher than projected performance. The narrative confirms that this is mainly due to a few long term sickness episodes. Short-term sickness is controlled and proactively managed through the line management processes in place. The Authority is actively monitoring performance in a range of areas and providing narrative commentary against adverse variances. This shows that the procedures in place are adequate for ensuring informed decision making is present for improving the delivery of the service. Finally, we note from our review of financial performance that the Authority surpassed budgeted expectations from both a revenue and capital perspective by coming in below budget for 2016/17. This is a positive indication of the planned delivery the medium term financial strategy supported by realistic budgets based on reasonable assumptions. Transformation is a key element of the commitment to the strategy of the Service as set out in The Plan and approved by the Fire Authority. However, it should be noted that the assumptions made around growth and additional income in future years are more ambitious than in previous Plans and the Authority is taking time to establish itself in new markets. There are positive signs, but the plans to close the financial gap going forward are challenging and will require close scrutiny where significant variances arise. **On that basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements.**

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	Work to address	Findings and conclusions
Partnership working with other emergency services There is evidence that the Service is working in partnership with West Midlands Police, ambulance Service, NHS, Local Authorities and other Fire & Rescue Authorities where the opportunity arises. There is some uncertainty over what form further collaboration will take and how this will lead to wider integration. Development of the West Midlands Combined Authority Mayoral arrangements and the recent legislative changes is now forcing a faster paced change. This links to the Authority's arrangements for working effectively with third parties to deliver strategic priorities.	We have reviewed the project management and risk assurance frameworks established by the Authority in respect of the more significant projects, to establish how the Authority is identifying, managing and monitoring these risks.	Overall we have gained assurance that there are no significant VFM risks relating to partnership working which adversely impact on our VFM conclusion for 2016/17. The Mayoral West Midlands Combined Authority (WMCA) is a significant new governance structure and will be a key driver of public service reform in the region. West Midlands Fire Authority has signalled its intent to become integrated with the Mayoral WMCA as part of its overall governance structure. There is evidence of the consideration of decisions by the Fire Authority to enable informed decision making on this key structural issue. The legislation is clear that the Government is committed to closer collaboration between the police and fire and rescue services. This Government is clear that greater joint working between the emergency services can deliver better local accountability, an improved service for communities and significant savings for taxpayers. Similarly the Government believes that central policy making, as well as local delivery, can benefit from a more joined up approach and that this can be best achieved by transferring responsibility for fire and rescue policy from the Department for Communities and Local Government to the Home Office. In response to this changing agenda (both politically and structurally), the Fire Authority has refreshed its vision and rolling three year Plan following stakeholder consultation. The Authority has also reviewed its Corporate Risks and is leading on Public Service Reform for Mayoral WMCA. West Midlands Fire Service has made significant progress in reforming itself to meet the wider challenges of driven by changes in Government policy and the complex and diversifying needs of the public. Cross sector working is a the heart of meeting these needs going forward and there is a recognition that the role of the Fire Service goes beyond that of a traditional firefighting service. This is reflected in the recent change in the vision to 'Making the West Midlands Safer, Stronger and Healthier' and picks up the increasing role in delivering outcomes in conjunction with other public sector services, including Police, Health bodies and Local Government bodies. Key to this approach is evidence which shows the incidence of individuals with multiple public service needs, providing an opportunity for a joined up approach to service delivery which is both more efficient and effective. The recent Peer Challenge identified that "West Midlands Fire & Rescue Service is keen to be at the forefront of working on the wider health agenda…..tackling health inequalities through its prevention and community safety work. The Service makes use of data and intelligence to target its Safe and Well visits. The Vision to deliver this across the whole community will assist with future Fire Reform developments". West Midlands Fire Authority has consulted and adapted to ensure that its structure and processes support collaborative working. The public service reform agenda is challenging, and meeting the Mayoral WMCA timetable for this will be demanding. There is a risk that the development of combined governance arrangements with Mayoral WMCA are not in place as rapidly as planned. In response to this the Authority set up a Governance Working Group with an independent Chair and following a review it reported its findings and recommendations for the service with a focus on the scrutiny, accountability and transparency this provides to communities. The Authority wants to ensure that it has the best governance it can, to be able to respond to strategic governance arrangements both within the region and within emergency services. **On that basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements**

Looking forward

Following the announcement in January 2016 to transfer responsibility for fire and rescue to the Home Office, the West Midlands Fire and Rescue Authority has responded well by engaging with partners and ensuring that key Senior Fire Leads are present at the table for any negotiations on how the service will be delivered in future as part of the wider service to local tax payers.

Whilst nationally fatalities have declined the ability of the service to deliver more proactive work, some of which drives income, has increased. The Authority remains mindful that it needs to retain sufficient capacity and capability to respond to emergency calls within the target times, but also have the capacity to respond to a major incident should it occur.

The Fire Authority is clear that it needs to drive forward the efficiency agenda. Reductions in funding, changes to prime legislation and the establishment of regional arrangements through the combined authority, provide a catalyst to challenge current delivery. Discussions with West Midlands Police and the seven Local Authorities within the West Midlands have been driven by the Chief Fire Officer who also holds the role of Chief Executive for Public Sector Reform on behalf of the Mayoral WMCA. These continuing discussions provide confidence that the Authority is taking a planned approach to optimising their joint use of resources and aligning overall oversight of services.

Funding for fire and rescue authorities has fallen significantly between 2010/11 and 2015/16. However, the Fire Authority is currently in a relatively strong financial position with minimal debt and healthy reserves. It is well positioned financially to support the transformations required to deliver further savings. An Efficiency Plan has been developed, setting out £10 million of savings and increased income to meet the future financial gap. This includes £4 million from more flexibility in staff deployment, and a further £2 million from business development. Delivering this level of additional income will be challenging.

The service is thinking creatively around how it optimises its resources. Using the skills and the capacity of Fire Officers in a planned way has allowed the Service to win contracts to deliver first response for elderly people following a fall. This supports the overall preventative agenda of the Authority by gaining access to vulnerable groups whilst also providing an income stream. The scale of the overall challenge to deliver efficient, effective services that meet the needs of the community in an environment of core funding reductions is significant but the management of the Service and the Fire Authority has demonstrated a commitment to meet this challenge.

Section 4: Other statutory powers and duties

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

	Issue	Commentary
1.	**Public interest report**	• We have not identified any matters that would require a public interest report to be issued.
2.	**Written recommendations**	• We have not made any written recommendations that the Authority is required to respond to publicly.

Section 5: Fees, non-audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Proposed fee £	Final fee £
Authority audit	38,636	38,636
Total audit fees (excluding VAT)	**38,636**	**38,636**

Fees for other services

Service	Fees £
Audit related services:	0
Non-audit services	0

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

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 Auditing Practices Board's Ethical Standards and confirm that we 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 Auditing Practices Board's Ethical Standards.

Section 6: Communication of audit matters

Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

A. Audit Opinion

A: 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

We have audited the financial statements of West Midlands Fire and Rescue Authority (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and the related notes and include the firefighters' pension fund financial statements comprising the Pension Fund Account, the Net Assets Statement and the related notes. 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of Responsibilities, 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:
the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:
in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
we have exercised any other special powers of the auditor under the Act.

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

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

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.

We are required under Section 20(1)(c) of the Act 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.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria 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 2017.

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 form a view on whether in all significant respects the Authority has put in place proper 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 criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of its resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

[Signature]

Richard Percival
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

Date