The Annual Audit Letter for West Midlands Fire and Rescue Authority

Year ended 31 March 2020

22 March 2021



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at West Midlands Fire and Rescue Authority (the Authority) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Authority and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Fire and Rescue Authority' in our Audit Findings Report on 5 October 2020.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Authority's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Authority's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Authority's financial statements to be £2.4 million, which is approximately 2**%** of the Authority's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the Authority's financial statements on 3 March 2021. The completion of our audit was delayed due to uncertainties about the information supporting the Authority's land and buildings valuation. We completed additional audit work and concluded that we had sufficient audit assurance to conclude that there was a low risk that the valuation was materially misstated due to inaccurate supporting information. We included an emphasis of matter paragraph in our report in respect of the uncertainty reported by the valuer over valuations of the Authority's land and buildings due to the impact of Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Authority's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Authority's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Authority on 3 March 2021.
Certificate	We certified that we have completed the audit of the financial statements of West Midlands Fire & Rescue Authority in accordance with the requirements of the Code of Audit Practice on 3 March 2021.

Working with the Authority

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Authority. Including changing patterns of demand and providing logistical support to local authority partners and other emergency services in managing the crisis.

The finance and audit teams have also had to consider managing staff sickness, access to systems and team capacity. However, in practice we found that absence was limited and both teams were able to effectively manage the remote working process. As we have noted the audit took longer to complete than planned and we are grateful for the finance teams continued support and engagement to enable us to complete the audit.

We would like to record our appreciation for the assistance and co-operation provided to us throughout our audit by the Authority's staff.

Grant Thornton UK LLP
March 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Authority's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £2.4 million, which was 2 per cent of the Authority's gross cost of services. We used this benchmark as, in our view, users of the Authority's financial statements are most interested in where the Authority has spent its revenue in the year.

We also set a lower level of specific materiality of £25,000 for senior officer remuneration to reflect the additional sensitivity in this area.

We set a lower threshold of £120,000, above which we reported errors to the Audit and Risk Committee, as those charged with governance, in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Authority and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Authority's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, and therefore identified the global outbreak of the Covid-19 virus as a significant audit risk.	We: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 26 June 2020 • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Authority property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic • evaluated whether sufficient audit evidence could be obtained through remote technology • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment	Apart from the issue noted concerning material valuation uncertainty in land and buildings valuations (referred to in our emphasis of matter paragraph) we did not have any concerns to report in relation to this risk.
Management override of controls Under ISA (UK) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant audit risk.	We: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions	Our audit work did not identify any issues to report in respect of management override of controls.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings The Authority revalues its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value at the balance sheet date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£124 million) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2020. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant audit risk.	We: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • Evaluated the competence, capabilities and objectivity of the valuation expert • Wrote to the valuer to confirm the basis on which the valuations were carried out • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding of the Authority's valuer's report and the assumptions that underpin the valuation • Tested the full valuation at 31 March 2020 to understand the information and assumptions used in arriving at any revised valuations • Tested revaluations made during the year to ensure they had been input correctly into the Authority's asset register	Due to the outbreak of Covid-19 market activity is being impacted in many sectors. Many valuers have considered that less weight can be attached to previous market evidence to inform their opinions of value. They have therefore reported to the authorities on the basis of 'material valuation uncertainty'. This is the case for West Midlands Fire and Rescue Authority. Your valuer identified a valuation uncertainty relating to the impact of Covid-19. This was reported in Note 3 of the financial statements and referred to in our emphasis of matter paragraph. Our testing of the floor information provided to the valuer for his valuation identified inconsistencies between the floor areas used and those made available to us by the Property team. These differences would have had a material impact on the valuation. Management pursued this matter with the valuer and the Property team and were able to provide supporting evidence for the three largest assets we tested (Fire Service HQ, Walsall Station and Wolverhampton Station). We were able to conclude on this basis that the risk of material misstatement was low. There are however differences between Property and valuer floor areas for the remaining 20 items in our sample that need resolving before we commence our 2020/21 audit.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of the pension fund net liability Fire Fighter and Local Government Pension Scheme The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant audit risk.	The Authority's total net pension liability at 31 March 2020 was £1,697 million (Prior Year £1,805 million) comprising the Local Government Pension Scheme (LGPS) and the Fire Fighters Pension (unfunded) schemes. The Authority uses Barnett Waddingham for the LGPS Pension Schemes to provide an actuarial valuation of the Authority's assets and liabilities derived from the West Midlands scheme and the Government Actuary Department (GAD) for the Fighters' Pension Scheme. A full actuarial valuation is required periodically. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. We: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuations; • assessed the accuracy and completeness of the information provided by the Authority to the actuaries to estimate the liabilities; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuaries; • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • reviewed the inclusion of remedy within the actuary report • LGPS - requested assurances from the auditor of West Midlands Pension Fund (WMPF) as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.	In July 2020 HM Treasury issued further guidance on assessing the impact of the McCloud/Sargeant remedy. As the actuary assessed this as having a material impact, reducing the pension liability by £9.6million, the final version of the accounts was adjusted. Our audit work did not find any other issues to report in respect of the valuation of pensions liabilities.

Audit of the Financial Statements

Audit opinion
We gave an unqualified opinion on the Authority's financial statements on 3 March 2021.

Preparation of the financial statements
The Authority presented us with draft financial statements in June in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements
We reported the key issues from our audit to the meeting of the Fire and Rescue Authority on 5 October 2020.

Annual Governance Statement and Narrative Report
We are also required to review the Authority's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in June.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Authority and with our knowledge of the Authority.

Whole of Government Accounts (WGA)
We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Authority was below the audit threshold on 3 March 2021.

Certificate of closure of the audit
We certified that we have completed the audit of the financial statements of West Midlands Fire and Rescue Authority in accordance with the requirements of the Code of Audit Practice on 3 March 2021.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

Following on from that assessment and during the course of our audit, we identified financial sustainability as a significant value for money risk.

As part of our Audit Findings reported to the Authority in October 2020, we summarised our findings and conclusions

Overall Value for Money conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money (continued)

Risk identified in our audit plan – Financial Sustainability

Given the financial uncertainty in future funding arrangements there is a residual VFM risk in respect of planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Our findings

2019/20 Out-turn

The Authority forecast that it would deliver a balanced position for 2019/20, broadly in line with its budget and this was achieved. The Authority's General Fund reserves have reduced significantly over the last three years from £52.970 million at the 31 March 2017 to £35.960 million as at 31 March 2020. Although the Treasurer is satisfied that there are currently sufficient General Fund balances, there is limited scope to reduce balances further.

2020/21 Position

The Authority agreed a net revenue budget of £100.147 million for 2020/21. Due to the uncertainty about Government funding it had been assumed that 2020/21 funding would reduce by two percent. This did not happen, and the 2020/21 settlement was positive for the Authority resulting in core funding being £2.0 million higher than anticipated.

The Treasurer's budget report made clear that this funding settlement was a one-year arrangement only and that there are continuing budget uncertainties, particularly related to Firefighter pension scheme costs.

From April 2019 the employer contribution rate on unfunded Firefighter pensions schemes increased from an average of 17.6 percent to 30.2 percent. The estimated cost to the Authority of this change was £6.2 million. This increase was largely funded in 2019/20 by Government grant totalling £5.7 million and it was confirmed that this grant would also be provided for 2020/21. Funding for this change beyond 2020/21 is uncertain.

There is also continuing uncertainty about the impact of the McCloud/Sargent Court of Appeal decision on the Authority's pension costs. Due to the continued lack of clarity the Authority's 2020/21 budget does not include any contingency for additional costs arising from this.

The Authority's 2020/21 budget was agreed before the onset of the Covid19 pandemic. In common with all public sector bodies the Authority has had additional demands and uncertainties to deal with. These included the impact of remote working and potentially higher levels of sickness absence. Fire Officers have also volunteered for challenging roles supporting other front-line staff. Government has recognised the additional Covid19 related spending pressures on Fire and Rescue Authority's and provided additional funding. The Authority received £2.79 million of Covid19 funding.

Forward Look

The uncertainty about future funding has been increased by the impact of Covid19. The arrangements for the Authority's financial settlement beyond 2021/22 are not clear and the Fair Funding Review implementation has been postponed until 1 April 2023. This uncertainty, the potential for the Authority to face significant increases in its pension contribution costs and the continuing uncertainty about the financial impact of the Covid19 pandemic highlights the need for the Authority to carefully manage its General Fund balances.

Auditor Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit.

Reports issued

Report	Date issued
Audit Plan	March 2020
Audit Plan Update	April 2020
Audit Findings Report	October 2020
Annual Audit Letter	March 2021

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	35,500	35,500	33,750
Impact of Covid19 working arrangements		3,550	
Land and buildings valuation – additional audit work		6,280	
Total fees	**35,500**	**45,330**	**33,750**

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £29,750 assumed the scope of the audit did not significantly change. Due to the additional work we are required to do since the audit contract was awarded by PSAA Limited we agreed a fee variation of £5,750 increasing the audit fee to £35,500.

The completion of our audit was impacted by the Covid pandemic and additional work required on the Authority's land and buildings valuation (see table). We are therefore proposing a further fee variation of £9,830.

Area	Reason	Proposed Fee £
Covid19 working arrangements	Remote working due to the pandemic has increased both the elapsed time taken to complete the audit and the input required. Additional time was necessary to revisit planning, review management estimates and assumptions due to increased uncertainty and the impact of remote working. We are proposing a 10 percent fee variation to cover these additional costs	3,550
Land and buildings valuation – additional audit work	Additional work necessary due to limited information provide to support floor area data used in the valuation and material differences to data used by valuer.	6,280
Total		**9,830**



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