

Audit Committee Update for Shropshire and Wrekin Fire & Rescue Authority

Year ended 31 March 2015

June 2015

Mark Stocks

Director

T +44 (0)121 232 5437

E mark.c.stocks@uk.gt.com

Helen Edmonds

Manager

T +44 (0)121 232 5392

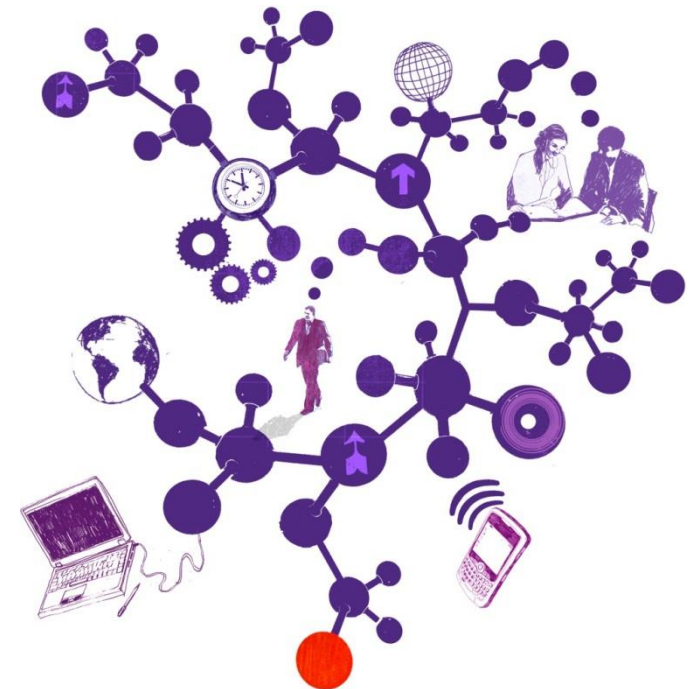
E helen.edmonds@uk.gt.com

Jonathan Meek

In Charge Accountant

T +44 (0)121 232 5178

E jonathan.j.meek@uk.gt.com



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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- All aboard? our local government governance review 2015
- Stronger futures: development of the local government pension scheme
- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Mark Stocks Engagement Lead T 0121 232 5437 M 07584 591 488 mark.c.stocks@uk.gt.com
Helen Edmonds Audit Manager T 0121 232 5392 M 07899 076 180 helen.edmonds@uk.gt.com

Progress at June 2015

Work	Planned date	Complete?	Comments
<p>2014-15 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Fire Authority setting out our proposed approach in order to give an opinion on the Fire Authority's 2014-15 financial statements.</p>	April 2015	Yes	Presented to the April Audit Committee
<p>Interim accounts audit Our interim fieldwork visits included:</p> <ul style="list-style-type: none"> • updating our review of the Fire Authority's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	January – April 2015	Yes	<p>We confirmed that the Authority's control environment is sound.</p> <p>We were able to undertake a reasonable level of early substantive testing on the key risk areas within the financial statements. No issues were identified which impacted on our proposed testing plan.</p> <p>We have ensured continual dialogue with key finance staff is continual in order to address any issues as they arise.</p>
<p>2014-15 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the Fire Authority's accounts • proposed Value for Money conclusion. 	August – September 2015	No	Final accounts audit begins on 3 August 2015.

Progress at June 2015

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2014/15 VfM conclusion comprises: <ul style="list-style-type: none">• The organisation has proper arrangements in place for securing financial resilience.• The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	January – September 2015	In progress	Initial risk assessment complete. No significant risks identified.
Annual Audit Letter A summary of all work completed as part of the 2014/15 audit.	October 2015	No	

Crews control: making better use of people and equipment

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Our third UK fire summit focuses on how the fire service can make better use of people and equipment. It is available for download at <http://www.grant-thornton.co.uk/Global/GT.1146%20Fire%20and%20Rescue%20-%202015%20FINAL.pdf>

The nature of the fire service is changing, fire safety initiatives, improved building construction and furniture design mean that fire services can now spend as much time responding to road traffic accidents as they do dealing with fires. Fire services also face an unprecedented financial challenge. The typical fire service has seen its funding reduced by more than a quarter, with the likelihood of more reductions to come.

With employment costs typically representing three-quarters of revenue expenditure it is critical that fire fighters' are deployed in an efficient and effective manner. Significant changes are vital in order for the service to survive. Put simply the fire service needs to make better use of fire fighters time and have appliances that are more flexible and suited to the risks faced.

Making these changes is not easy. There are significant barriers to changing historic crewing arrangements and the introduction of new appliance types cannot be implemented overnight. However, the pace of change is slow and uncertainty remains as to whether the changes needed can be actioned at the speed required.

Key messages from the report

- Doing nothing with current fire fighter crewing arrangements is not an option.
- The changing nature of incident response requires a different mix of appliance type.
- There is not a one size that fits all solution, but fire services need to understand and analyse their local risks and ensure fire fighter crewing and equipment (including appliances) appropriately reflect these risks.
- There are significant barriers to changing crewing working practices but there are signs across the country that these barriers are being overcome.
- Alternatives to the traditional fire appliance in the form of light rescue pumps, rapid intervention vehicles and even motorbikes with panniers are examples of changes that will enable a more effective response to incidents going forward.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



Emergency Services Collaboration 2014

Fire Sector issues

Sir Ken Knight's [Facing the future review](#), published in 2013, set out a compelling argument for fast and radical transformation in the delivery of fire and rescue services. Sir Ken was clear about the potential he saw for greater collaboration with the other blue lights services.

In July 2014, the Secretary of State set out the government's approach to meeting the opportunities and challenges highlighted by Sir Ken. A key priority was to encourage and support greater collaboration between fire and local authorities, and between fire, police and ambulance services to deliver better outcomes for the public.

The Emergency Services Collaboration Working Group was formed in September 2014. By providing strategic leadership, coordination and an overview across England and Wales, the group aims to improve emergency service collaboration. They reported to the Blue Light Innovation Conference in November 2014.

What Makes Collaboration Successful?

- From speaking with strategic leads and programme managers across the country, it was determined that the following characteristics feature in successful collaboration projects:
- 'We can pick up the phone': strong, open and honest relationships between the services' chief officers.
- 'Clarity together from the outset': agreement of a strategic vision that aligns tightly with all the collaborating services' strategic goals.
- 'We've got our best person': highly skilled and motivated programme manager from each service, with a balance of skills relevant to change management across the working group.
- 'Tell them how it is': open, consistent communication and consultation with staff from the very earliest opportunity.
- 'Fail fast': willingness to abandon opportunities if politics or operational interests do not align, to avoid losing momentum or jeopardising relationships.
- 'Give not take': an agreement that all parties will not seek to profit from one another; every service cannot benefit in every instance; if collaborative relationships are strong and improved public service remains the priority, savings will follow.

Challenge question

Do members understand how collaboration is being driven through the strategic plan and how funding for initiatives can be secured?

Spreading their wings – Building a successful local authority trading company

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The trend in using alternative models to protect and develop services has continued over the last year. As local government continues to confront financial pressure, many have considered how to reduce costs, generate income and improve efficiency by introducing commercial structures.

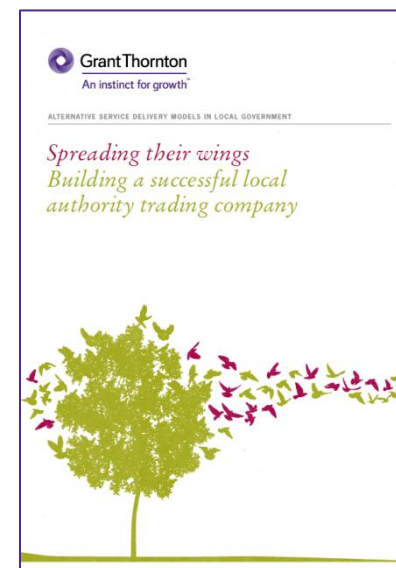
The introduction of Local Authority Trading Companies (LATCs) has been a key part of this innovation. While restricted initially to areas such as entertainment or airports – for example Birmingham’s NEC and Manchester Airport – they have grown into new areas such as highways, housing and education. More recently, LATCs dedicated to the delivery of social care services have emerged.

However, the delivery of a successful company is not easy. In light of this, 'Spreading their wings' provides practical guidance – drawn from interviews with councils and from the successful companies we have worked with – on the steps that need to be followed in:

- deciding to set up a local authority trading company
- setting up a local authority trading company
- building a successful local authority trading company.

Hard copies of our report are available from your Engagement Lead or Audit Manager or the report can be downloaded from our Grant Thornton website

<http://www.grant-thornton.co.uk/Global/spreading-their-wings-LATC-report-2015.pdf>



All Aboard? - Local Government Governance Review 2015

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Our fourth annual review of local government governance is available at <http://www.grant-thornton.co.uk/en/Publications/2015/Local-Government-Governance-review-2015-All-aboard1/>.

We note that the challenges faced by local authorities are intensifying as austerity and funding reductions combine with demographic pressures and technological changes to create a potential threat to the long-term sustainability to some organisations. Maintaining effective governance is becoming ever more complex and increasingly important.

Against this background we have focused this year's review on three key areas:

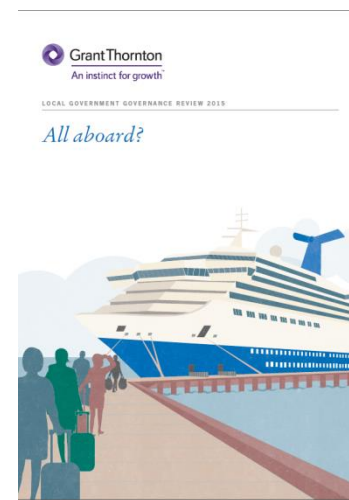
Governance of the organisation – the main area of concern highlighted in this year's governance survey is the level of dissatisfaction with the scrutiny process.

Governance in working with others – there is an urgent need for scrutiny to exercise good governance over the complex array of partnerships in which local authorities are now involved. Boundary issues notwithstanding, by 'shining a light' on contracted-out activities and joint operations or ventures, scrutiny committees can bring a new level of transparency and accountability to these areas

Governance of stakeholder relations – despite the work that a number of local authorities are doing with the public on 'co-production', almost a third of respondents to our survey did not think their organisation actively involves service users in designing the future scope and delivery of its services.

We conclude that local authorities need to ensure that their core objectives and values are fulfilled through Many other agencies . This implies a greater role for scrutiny and a need to make sure local public sector Bodies' arrangements are as transparent as possible for stakeholders.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



Smoke and Carbon Monoxide Alarms in the Private Rented Sector

Accounting and audit issues

The Government has recently laid the Smoke and Carbon Monoxide Alarm (England) Regulations 2015 requiring all private sector landlords to ensure working smoke alarms and, in some circumstances, carbon monoxide alarms are installed in their rented properties at the start of each tenancy. The Regulations made under section 150(1) of the Energy Act 2013 will, subject to Parliamentary approval, come into force on 1 October 2015.

These Regulations will, from October 2015, require private landlords to ensure that there is a working smoke alarm installed on each storey of a privately rented home, a working carbon monoxide alarm is in place in each room containing a solid fuel burning combustion appliance and check that appropriate alarms are in working order at the start of each tenancy. The regulations will be enforced by local housing authorities who will be able to serve remedial notices on those in breach of their duty to comply and, where appropriate, to impose a civil penalty charge of up to £5,000.

It is estimated that the new regulations will save 26 lives and nearly 700 injuries per year.

To support private landlords with the transition to compliance before October 2015, the Department has - on the advice of the Chief Fire Officers Association National Procurement Group - provided one-off grant funding to West Midlands Fire and Rescue Authority and to Devon and Somerset Fire and Rescue Authority to purchase, on behalf of all English fire and rescue authorities, smoke and carbon monoxide alarms for distribution to private landlords in each authority's area.

The Department wrote to each fire and rescue authority on 13 March setting out details of the allocation of alarms each could expect to receive from either of the purchasing authorities. Kieran Timmins, the chair of the Chief Fire Officers Association National Procurement Group and Deputy Chief Executive of Merseyside Fire and Rescue Service, is coordinating the distribution arrangements to individual fire and rescue authorities. West Midlands Fire and Rescue Authority is writing to all fire and rescue authorities to advise on the value of inventory which should be accounted for as at 31 March 2015.

Each fire and rescue authority has discretion to determine the criteria and arrangements for distribution of alarms to private landlords in their area between now and 1 October 2015. They may wish to consider whether to undertake any local communications of the offer among landlords and in what circumstances, if any, they may be prepared to offer a free installation service.

Challenge question

- Has your authority agreed how they are going to disclose this inventory within their financial statements?

Inclusion of overtime in the calculation of holiday pay

Accounting and audit issues

The Employment Appeal Tribunal (EAT) has delivered its judgement on the extent to which overtime pay should be included in the calculation of holiday pay. This case stems from an apparent conflict between UK law and European Law.

The EAT found that non-guaranteed overtime (i.e. overtime, which is not guaranteed by the employer, but which the worker is obliged to work, if it is offered), should be included in the calculation of holiday pay. Back-dated claims can only be made if it is less than three months since the last incorrect payment of holiday pay.

It is likely that there will be an Appeal to this decision. However that does not mean that authorities should hold off assessing the impact. Local authorities should be considering their own circumstances and if necessary taking their own legal advice as to the extent they might be affected by the ruling. If an authority is going to be affected they need to assess whether the liability can be reliably measured.

For an authority likely to be affected in a material way, where it is possible to reliably measure that liability, then appropriate provision should be made in the 2014/15 accounts. The fact that the issue might go to Appeal at some uncertain time in the future is not of itself grounds for not including a provision. The chances of any success would need to be taken account of in the legal analysis but, in any case, there are some indications that the key issue on Appeal would be whether to remove the three month cap (if this were done then the provision would increase), rather than dismissing the entire decision to include overtime in the calculation of holiday pay.

Challenge question

- Has your authority taken legal advice and assessed if a provision is required in the 2014/15 accounts?

Earlier closure and audit of accounts

Accounting and audit issues

Legislation was recently passed to bring forward the deadlines for the preparation and audit of Local Government financial statements from 2017/18 onwards. The timeframes for the preparation of the financial statements and their subsequent audit will be reduced by one month and two months respectively as follows:

- Deadline for preparation of financial statements – 31 May (currently 30 June)
- Deadline for audit completion – 31 July (currently 30 September)

Although July 2018 is over 3 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management.

Local government accountants and their auditors should start working on this now.

Top tips for local authorities:

- make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen
- make the year end as close to 'normal' as possible by carrying out key steps each and every month
- discuss potential issues openly with auditors as they arise throughout the year
- agree key milestones, deadlines and response times with your auditor
- agree exactly what working papers are required.

Auditors are already working on bringing forward more testing to before the financial statements are prepared and will be discussing further changes with local authorities including greater use of estimates in the accounts which will enable the audits to be brought forward further.

Some authorities currently produce their financial statements ahead of the current deadline, or have plans to do so in 2014/15, and some audits are completed before 31 July.

We will be assessing how this has been achieved and will share our findings in a national report, expected in early 2016.



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