

# Annual Audit Letter

Hereford and Worcester Fire and Rescue Authority

Audit 2010/11



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## Traffic light explanation

Red  Amber  Green 

# Key messages

**This report summarises the findings from my 2010/11 audit. My audit comprises two elements:**

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

Key audit risk	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

## Overview

- 1 You have continued to focus on delivering good value services in line with your plans and priorities. An increase in the number of calls for assistance has been reported as well as an increase in the number of incidents attended in 2010/11. You have highly developed performance management arrangements to enable you to monitor and challenge performance.
- 2 Unprecedented Government funding cuts will mean that you, councils and other public services will need to work both harder and smarter. You have already been proactive in recognising the need for change through the restructure of roles and responsibilities at a senior level in the Authority that were implemented during 2010/11.
- 3 Reductions in funding have been recognised and in light of this you have recognised that you will be required to make difficult decisions to

reduce costs and maintain your financial standing position. Preparations have commenced in several areas to minimise their impact.

- 4 Whilst there has been a necessary focus upon savings you have looked to continue to support projects that will help improve the Service. Investment in fire stations has been approved and implemented with the completion of the Pebworth station in 2010/11. Opportunities have also been taken to improve training facilities as part of this project.
- 5 You have responded to the cessation of the national FiReControl project and developed a joint outline business proposal for the formation of a shared resilient control room infrastructure with Shropshire Fire and Rescue Service. This paves the way for possible closer future collaboration between the two organisations with wide-ranging potential benefits including achieving economies of scale.
- 6 There will undoubtedly be uncertainties for staff during this period and senior management will play a key role in managing its impact on staff and in ensuring high quality services are maintained.

## Audit opinion and financial statements

**7** 2010/11 was the year in which new management arrangements in respect of the finance team were put in place, including the appointment of an interim Treasurer and the Director of Finance and Assets taking on board additional responsibilities. This took capacity out of the finance team which it was believed could be accommodated. However, the complexities of the transition to International Financial Reporting Standards (IFRS) proved greater than envisaged and had a significant impact upon the quality of the initial financial statements presented for audit and the working papers to support them.

**8** The financial statements presented for audit contained a material error. A journal had been processed incorrectly resulting in short term debtors and short term creditors being overstated by £2.5 million. This error was corrected and it did not impact on the reported surplus shown on the Comprehensive Income and Expenditure statement for the year.

**9** My audit identified a number of errors that were non trivial and the number of disclosure corrections was large. All items were corrected for.

**10** I issued an unqualified opinion on 29 September 2011. In my opinion the financial statements give a true and fair view of your financial position, income and expenditure and that for the firefighters' pension fund for the year ended 31 March 2011.

## Value for money

**11** As well as issuing an opinion on the financial statements, I issue a statutory Value for Money conclusion. For 2010/11 the Audit Commission determined two criteria for me to consider:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

**12** I concluded that the Authority has adequate arrangements to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2011.

## Certificates

**13** I presented my report into the retirement of the former Chief Fire Officer (CFO) to the Audit Committee on the 7 November 2011 together with supplementary Annual Governance Reports for both the financial years of 2009/10 and 2010/11.

**14** This was the outstanding matter remaining to be considered for the completion of the Value for Money (VFM) conclusion for 2009/10. I have concluded that in all significant respects the Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010. However, this is with the exception that whilst appropriate governance structures were in place weaknesses in the way the arrangements operated in practice in the matter of the former CFO meant that you were unable to evidence you had adequate arrangements in place to promote and demonstrate the principles and values of good governance during 2009/10.

**15** The Authority has been open and transparent about the issue of the retirement of its former CFO. Since his appointment in April 2010 the new Chief Fire Officer has taken responsibility for ensuring any learning from the issue is acted upon. As a result of this and the actions already taken I am satisfied that the Authority can demonstrate that it had appropriate arrangements in place for 2010/11. I am also of the view that the failings in 2009/10 did not relate to or impact upon the operation of the fire service and there was no increase in risk to the people of Herefordshire and Worcestershire.

**16** With all matters from the 2009/10 year having been resolved and upon the receipt of an updated letter of representation from the Treasurer I was able to issue my certificate to complete your 2009/10 and 2010/11 audits on the 15 November 2011.

# Current and future challenges

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## Public sector finances

**17** The Coalition Government's Comprehensive Spending Review (CSR) in October 2010 announced savings of, on average, 7.1 per cent for each local government body from April 2011 until 2015. In reality, the savings required for Fire and Rescue Authorities announced in December 2010 were around 25 per cent. Savings plans on existing arrangements alone are unlikely to be sufficient to meet this challenge.

**18** The required savings are back loaded to allow Fire and Rescue Authorities time to assess opportunities for savings and consider how best to reconfigure the delivery of services in the longer term. You approved a four year Medium Term Financial plan from 2011/12 in February 2011. Your plan has identified a shortfall of £9 million in the period 2012/13 to 2014/15 based on a suite of assumptions. The Authority has recognised the reductions in funding and preparations have commenced to minimise their impact. In recognising the need for change there has been a restructuring of roles and responsibilities at a senior level in the Authority. Members, officers and staff have shared ideas on areas to identify efficiencies through Meeting the Challenge workshops informing the 2011/12 IRMP Action Plan proposals.

**19** The robustness of financial management together with future service and financial strategies will be key to the Authority in achieving its priorities and maintaining financial resilience. There will undoubtedly be uncertainties for staff during this period and senior management will play a key role in managing its impact on staff and in ensuring high quality services are maintained.

**20** The impact of the pressures on public sector finances will continue to present the Authority with significant challenges. The Authority recognises that it will have to make difficult decisions to reduce its costs and maintain its financial standing position, including considering increasing the funds raised through Council Tax to address the shortfall of £2.5 million projected for 2014/15. I am satisfied that your current arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness are soundly based and will continue to monitor the Authority's response and actions in this key area.

**21** Whilst there has been a necessary focus upon savings you have looked to continue to support projects that will help improve the Service. Investment in fire stations has been approved and implemented with the completion of the Pebworth station in 2010/11. Opportunities have also been taken to improve training facilities as part of this project.

**22** The cessation of the national FiReControl project has been responded to by the development of a joint outline business proposal for the formation of a shared resilient control room infrastructure with Shropshire Fire and Rescue Service. The Authority has a strong and developing strategic alliance with Shropshire and Wrekin Fire and Rescue Authority. Changes in systems and processes are discussed with them to ensure that there is similarity in the way the organisations work to allow cross border arrangements to support service delivery. Closer future collaboration between the two organisations provides opportunities for wide-ranging potential benefits including achieving economies of scale.

## National initiatives

**23** The next National Framework is currently being developed by Government. It is proposed the new Framework will be a short strategic document that re-sets the relationship between central Government and the Fire and Rescue Service. Stepping back from directing local services, it will place greater emphasis on local accountability for local services and focus on issues where there is a clear national interest, including national resilience. You are already well placed to address these issues through your performance management systems and established ways of consulting with local communities. However, the position will need to be reviewed once the new Framework is published.

**24** In September 2011 the Government published:

- the Code of Recommended Practice for Local Authorities on Data Transparency; and
- Best Value Statutory Guidance.

**25** The Transparency Code sets out central Government's views on the key principles for authorities in creating greater transparency and enhancing accountability through the publication of data. It is central Government's view that greater transparency of data is at the heart of enabling the public to hold politicians and public bodies to account. Publication of data should also be used to open new markets for local business, the voluntary and community sectors and social enterprises to run services or manage public assets. This Authority is being proactive to demonstrate compliance through the development of a local transparency web page but will need to keep the requirements under review.

**26** The streamlined Best Value Statutory Guidance sets out Government's expectations of the way authorities should work with voluntary and community groups together with small businesses when facing difficult funding decisions. The guidance, taken together with measures such as Community Right to Challenge the Localism Bill, aims to promote authority leadership in providing a level playing field for all, including local, voluntary and community organisations. The Authority's performance management arrangements and approach to local consultation to meet the Government's expectations mean that you are well placed but you will need to ensure your response is proportionate.

# Financial statements and annual governance statement

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**The Authority's financial statements and annual governance statement are an important means by which it accounts for its stewardship of public funds.**

## **Overall conclusion from the audit**

**27** I issued an unqualified opinion on the Authority's 2010/11 accounts on 29 September 2011. My overall conclusion from my audit of the Authority's 2010/11 financial statements is that they present a true and fair view of the Authority's financial affairs and those of the firefighters' pension fund for the year. The issues I addressed in my audit are within my Annual Governance Report presented to the Audit Committee on the 28 September 2011 and only the most significant issues arising are repeated in this letter. I presented this report to the Audit Committee who considered it before approving the financial statements and before I issued my opinion. I issued a final accounts memorandum to management on minor issues identified during the audit and copied the letter to the Chair of the Audit Committee.

**28** Supplementary Annual Governance Reports in respect of 2009/10 and 2010/11 were presented to the Audit Committee on the 7 November 2011 following the resolution of issues arising from the retirement of the previous Chief Fire Officer (CFO) that related to the 2009/10 year. There was no impact upon my opinions on both years' financial statements but my value for money conclusion in respect of 2009/10 was qualified (see paragraphs in respect of the previous CFO below). I certified both audits closed on 15 November 2011.

## **2010/11 financial statements**

**29** The initial financial statements were presented for audit on 30 June 2011, in line with the statutory deadline. However, the complexities of the transition to International Financial Reporting Standards (IFRS) proved greater than envisaged and had a significant impact upon the quality of the initial financial statements presented for audit and the working papers to support them.

**30** The initial statements presented for audit contained a material error. A journal had been processed incorrectly resulting in short term debtors and short term creditors being overstated by £2.5 million. This error was corrected and it did not impact on the Authority's reported surplus shown on the Comprehensive Income and Expenditure statement for the year.



**31** As part of my audit I did identify other errors (other than those of a trivial nature) as well as additional disclosures to ensure compliance with the International Financial Reporting Standards (IFRS) and reported these to management. All of these were amended.

**32** The Authority is required to include an annual governance statement within its financial statements. I reviewed the statement and considered that it was consistent with my understanding of the authority.

### **Accounting for pension costs, liabilities and firefighters pension fund grant**

**33** I reviewed the accounting for pension costs, liabilities and firefighters pension fund grant in line with the requirements of the CIPFA Code of Practice and discussed its presentation with your officers. This is a complex area. As a result changes were made to the disclosures of the transactions within the initial financial statements. The changes had no impact upon the surplus shown on the Authority's Comprehensive Income and Expenditure statement for the year.

### **Significant weaknesses in internal control**

**34** I did not identify any significant weaknesses in your internal control arrangements. However, a number of control and process weaknesses have impacted upon the efficiency of my audit and required additional audit testing.

### **Data submission to the Government's Actuary Department**

**35** A weakness was identified in the arrangements for the review of data sent to the Government's Actuary Department for the calculation of the firefighters' pension fund accounting entries. Following the identification of the issue at last year's audit improvements were expected to be made however this was found not to be the case. I undertook additional audit testing on the data submitted and was satisfied that no material error had occurred.

### **Property, plant and equipment accounting system**

**36** I found that the property, plant and equipment accounting system in place in the year was an informal year end process. A complete fixed asset register was not available for my audit until 8 September 2011. Although this process did not result in any material errors being identified in your initial financial statements the Authority has already implemented the asset management module integrated with the general ledger. The full use of this module should facilitate the preparation of the fixed asset register and the accounting for transactions relating to property, plant and equipment. The authority is improving its arrangements in this area.



## International Financial Reporting Standards

**37** The Authority had to prepare financial statements using the International Financial Reporting Standards (IFRS) for the first time in 2010/11. This required a considerable level of work including the restatement of the balance sheets for 2008/09 and 2009/10 to support the comparator disclosures. There were also substantial changes to the layout and structure of the initial financial statements including the number of disclosures required and the accounting policies.

**38** The implementation of IFRS in Local Government has been a significant challenge for all authorities. However the complexities of the transition to IFRS proved greater than envisaged and had a significant impact upon the quality of the initial financial statements presented for audit and the working papers to support them.

## Whole of Government Accounts

**39** The Whole of Government Accounts (WGA) exercise covers approximately 1,300 separate bodies. This aims to provide a commercial style set of accounts for the public sector and are prepared by HM Treasury. The Authority is required by statute to submit financial data from its financial statements as part of WGA. This enables transactions between the various bodies to be identified so they are not double counted within the final set of Government accounts. To support these accounts I provided an assurance statement to the National Audit Office on 30 September 2011 confirming that the disclosure of the Authority's pension liability/ asset movements and other disclosures are consistent with the Authority's audited financial statements.

## Audit fees

**40** As a result of the issues highlighted above the audit took longer than I had previously experienced and planned for when the fee was agreed. The Authority is addressing these weaknesses. However, as a result of them I have had to undertake additional and further audit testing beyond that originally planned and the additional time spent in order to complete the audit was significant, resulting in an additional fee of £7,000. Appendix 1 summarises the audit fees.

## Retirement of the previous Chief Fire Officer

**41** My investigation into the matter of the retirement of the previous Chief Fire Officer (CFO) is complete and I presented my report (*Retirement of the Chief Fire Officer – report by the District Auditor dated 28 October 2011*) to the Audit Committee on the 7 November 2011.

42 As a result of the financial loss of £247,000 (in the form of tax penalties, settlement costs and professional advisers' fees) to which the Authority and its constituent councils are committed following the early retirement of the Authority's previous CFO and the level of public interest in how the situation arose I have carried out an independent review of the decision making process followed by the Authority. My principal objective was to consider whether the Authority had followed appropriate processes in confirming the outgoing CFO's right to retire and, once it had identified its error, that it had taken appropriate action. My key focus has been on identifying the key learning points for the Authority and constituent councils (Herefordshire Council and Worcestershire County Council.)

43 The Authority appointed a new Chief Fire Officer in April 2010. It has already undertaken a thorough review of its governance arrangements and implemented changes to improve its arrangements.

44 The Authority will bear £74,500 of the totality of the costs arising from this matter with the constituent councils meeting £122,500 each. Insurance arrangements have partially covered the total cost. I concluded that the circumstances leading to these payments are complicated and technical in nature. I was able to satisfy myself that the provision for costs associated with the retirement of the previous Chief Fire Officer included in the Authority's financial statements for 2010/11 was not materially misstated.

45 I made three recommendations to the Authority. These were:

- the Authority should improve processes and arrangements in its governance arrangements (not operational) that could help safeguard the Authority against recurrence of a similar situation;
- the Authority should strengthen arrangements for ensuring the requirements of the Fire-Fighters' Pension scheme are met by putting in place arrangements for the distribution of published guidance and circulars to appropriate officers; and
- the Authority should review the provisions within the Authority's service level agreements with its constituent bodies on a regular basis. This review to include the provisions for arrangements for the handling of disputes where the terms of the agreements have not been met and/or the performance of staff is below that expected to ensure appropriate safeguards are in place to protect the Authority's position.

46 All of the recommendations have been agreed by the Authority and actions put in place for them to be implemented.

47 This was the outstanding matter remaining to be considered for the completion of the Value for Money (VFM) conclusion for 2009/10. I have concluded that in all significant respects the Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010 except that it did not put in place adequate arrangements to promote and demonstrate the principles and values of good governance. My reasons behind this conclusion are set out in detail in my supplementary annual governance report presented to the Audit Committee on the 7 November 2011. I certified the audit for 2009/10 closed on 15 November 2010/11.

**48** It is important to note that my report recognises that the Authority has been open and transparent about the issue of the retirement of its former CFO. Since his appointment in April 2010 the new Chief Fire Officer has taken responsibility for ensuring any learning from the issue is acted upon. Under his leadership the Authority has already made improvements to its governance arrangements. In September 2010 it appointed an 'in-house' Treasurer on a short-term contract. An interim Deputy Monitoring Officer has now been appointed as Clerk on a fixed term contract. Both of these roles are more closely integrated into the Authority. The Authority has also carried out a review of its committee arrangements in order to ensure they remain the most efficient and effective for its operational delivery. As a result of this and the actions already taken on the three recommendations above I am satisfied that the Authority could demonstrate that it had appropriate arrangements in place for 2010/11. I am also of the view that the failings in 2009/10 did not relate to or impact upon the operation of the fire service and there was no increase in risk to the people of Herefordshire and Worcestershire.

## National Fraud Initiative

**49** The Authority participates in the National Fraud Initiative (NFI). This is a national exercise that matches electronic data within the audited body and between audited bodies to prevent and detect fraud, including police authorities, local probation trusts, fire and rescue authorities as well as local councils.

**50** I reviewed the action taken by the Authority. I found that the Authority had submitted data returns for the 2010/11 exercise in line with timescales, followed up any identified matches and received full reports throughout the process.

# Value for money

**I considered whether the Authority is managing and using its money, time and people to deliver value for money. I assessed your performance in 2010/11 against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Authority has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

## Value for money criteria and key messages

Criterion	Key messages
<b>1. Financial resilience</b> <b>The organisation has proper arrangements in place to secure financial resilience.</b> Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	<i>Financial governance</i> There is capacity at senior level to provide strong leadership to the Authority. The authority has a sound understanding of the current financial environment and undertakes robust planning for the medium and long term. There is a strong link between the Authority Plan and Integrated Risk Management Plan. <i>Financial planning</i> It has undertaken scenario planning around the level of grant funding and considered these within the authority's detailed medium term financial plan to ensure that reserves are sufficient to meet future expenditure.

Criterion	Key messages
	<p><i>Financial control</i></p> <p>The authority historically closely monitors its expenditure and does not exceed budget levels. In 2010/11 the authority reported an underspend detailed in its financial statements enabling funds to be identified to support expenditure. The level of underspend does not indicate weaknesses in financial control.</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p><b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p><i>Prioritising resources</i></p> <p>The senior team provide clear leadership on spending priorities and demonstrate a clear understanding of the resource requirements of the service.</p> <p>The Authority has adopted a strategic approach to identifying cost reductions and challenging spending and investment decisions. It makes decisions on prioritising its resources based on robust information. The service has challenged the existing delivery arrangements of its control room function and is moving forward with shared arrangements with Shropshire Fire and Rescue Service.</p> <p>Performance management is strong and appropriately challenged by the Policy and Resources Committee.</p> <p>The authority benchmarks its performance with other authorities to identify areas for improvement. There is a good track record of working in partnership within both Herefordshire and Worcestershire as well as with other Fire and Rescue Authorities.</p> <p><i>Improving efficiency and productivity</i></p> <p>The Authority understands its costs. It has a record of producing and using robust information to evaluate options and plans for savings. Efficiencies have been made and continue to be implemented.</p> <p>The cessation of the FiReControl project required a review of the way the function is delivered and how it will be delivered in future. The Authority has worked closely with Shropshire Fire and Rescue Service on procuring a command and control system paving the way for possible closer future collaboration.</p> <p>The sharing of stations with other emergency services has been actively considered to improve efficiency at reduced cost. Challenging targets are set and it is working with others to achieve its priorities.</p>

# Closing remarks

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I have discussed and agreed this letter with the Chief Fire Officer and Treasurer. I will present this letter at the Audit Committee in January 2012 and will provide copies to all authority members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Authority during the year.

Report	Date issued
Audit Strategy	January 2011
Annual Governance Report	September 2011
Whole of Government Accounts Assurance Statement	September 2011

The Authority has taken a positive and constructive approach to our audit. I wish to thank the Authority staff for their support and co-operation during the audit.

Grant Patterson  
District Auditor

23 November 2011

# Appendix 1 - Fees

	Actual £	Proposed £	Variance £
Scale fee	86,400	79,400	7,000
Non-audit work	0	0	0
<b>Total</b>	<b>£ 86,400</b>	<b>£79,400</b>	<b>£ 7,000</b>

\* The Audit Commission paid a rebate of £5,305 to you (£4,240 in April 2010 and £1,065 in December 2010) to subsidise the 'one-off' element of the cost of transition to IFRS for fire authorities.



# Appendix 2 - Glossary

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## **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

## **Audit opinion**

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

## **Opinion**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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