

Annual Audit Letter

Hereford and Worcester Fire and Rescue Authority

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 8 to 11); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 12 to 15).**

I have included only significant recommendations in this report. The Authority has accepted these recommendations.

Overview

1 You have continued to focus on delivering good value services in line with your plans and priorities. The Authority has reported its best ever annual performance in terms of the lowest total number of incidents together with delivering a number of five year performance records in key areas. You have reported a further reduction in 2009/10 in the number of accidental fire related deaths and non-fatal injuries in the home compared to last year.

2 There has been a sustained focus on achieving your priorities through challenging resource use. Through centralised control of crewing annual savings have been achieved whilst at the same time increasing firefighter availability.

3 However there are challenging times ahead. Unprecedented Government funding cuts will mean that Fire and Rescue authorities, 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 a restructuring of roles and responsibilities at a senior level in the Authority and Meeting the Challenge project. However, maintaining financial resilience in the light of these pressures will be key. The robustness of your financial management and the future service and financial strategy will be key to the Authority in achieving its priorities. I will continue to work closely with you during this period.

4 At the time of writing this letter my investigations into the matter of the retirement of the previous Chief Fire Officer are ongoing and I will look to report my findings in the near future. As a result I have not yet been able to issue the statutory Value for Money (VFM) conclusion for 2009/10 or close the audit.

5 The Authority appointed a new Chief Fire Officer in April 2010. You have undertaken a thorough review of your governance arrangements and implemented changes to improve them where necessary.

Current and future challenges

6 The Coalition Government's Comprehensive Spending Review (CSR) announced on 20 October 2010 that over the four year period 2011/12 to 2014/15 the reduction to formula grant will be 25 per cent. This reduction is likely to be back-loaded by the Government so that in the first year the formula grant reduction will be single figures (in percentage terms) with the larger proportion of the cuts falling to years three and four.

7 The Authority has recognised the reductions in funding and preparations have commenced in several areas to minimise their impact. The scale of reductions in funding announced in the CSR is greater than included within the authority's medium term financial plan approved early in 2010. In light of this the Authority will have to make difficult decisions to reduce its costs and maintain its financial standing position. The Chief Fire Officer has recently met with Government ministers to explain the challenges facing the service. 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

8 I issued an unqualified opinion on the Authority's accounts on 30 September 2010. In my opinion the accounts give a true and fair view of your financial affairs and those of the firefighters' pension fund for the year.

9 The financial statements were presented for audit on 21 May 2010 significantly before the statutory deadlines. Whilst there was a significant improvement from last year I identified errors in the draft financial statements (other than those of a trivial nature) and reported these to management. All of these were amended for in the final financial statements. Full details of the findings from my audit have been reported to members in the Annual Governance Report I presented to the Audit Committee on 30 June 2010.

Value for money

10 As well as issuing an opinion on the financial statements, I am required to assess your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. From the work I have completed on the criteria which are not affected by the matter of the retirement of the outgoing Chief Fire Officer I was able to conclude that your overall performance had been maintained.

11 Until my work into the circumstances of the retirement of the outgoing Chief Fire Officer is complete I am unable to reach an overall VFM conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources or to close the audit of the accounts. I would hope to issue my report and conclusion shortly.

Financial statements and annual governance statement

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

I gave an unqualified opinion on the Authority's 2009/10 financial statements on 30 September 2010, in line with the statutory target date.

Overall conclusion from the audit

12 I issued an unqualified opinion on the Authority's accounts on 30 September 2010. This was in line with the statutory deadline. In my opinion the accounts give a true and fair view of your financial affairs and those of the firefighters' pension fund for the year.

13 Before giving my opinion I reported to those charged with governance, the Audit Committee, on the issues arising from the 2009/10 audit. I presented my Annual Governance Report on 30 June 2010 and only the most significant issues arising are repeated in this letter.

Amendments to the financial statements

14 The financial statements were presented for audit on 21 May 2010 significantly before the statutory deadline. The early closure of accounts is in line with good practice however it does present challenges for the Authority in having robust preparation and quality assurance processes in place.

15 I am pleased to report that the financial statements and working papers presented for audit were a significant improvement upon those presented last year. However, as part of my audit I did identify errors (other than those of a trivial nature) and reported these to management. All of these were amended. The three significant amendments that I wish to bring to your attention are summarised in paragraphs 16 to 18.

Inclusion of contingent asset

16 An amendment was made for the removal of income from the Authority's income and expenditure account and subsequent inclusion as a contingent asset note to the financial statements. This was in respect of potential income relating to the potential liabilities of the constituent authorities in the matter of the outgoing Chief Fire Officer.

Disclosure of accounting for Council Tax debtors

17 The Statement of Recommended Practice (SORP) issued by CIPFA included a new requirement for the accounting for council tax debtors. Your financial statements now need to reflect the fact that cash collected by the major billing authorities (which are Herefordshire Council and the six district councils in Worcestershire) from Council Tax payers belongs proportionately to the billing authorities and the major preceptors (which include the Authority together with Worcestershire County Council and West Mercia Police Authority). My audit found that the entries in 2009/10 and those restated for 2008/09 were incorrect. The amendments were not material to my opinion and there was no impact on the deficit shown on the Income and Expenditure Account for the year.

Disclosure of the Firefighters' Pension Fund

18 I reviewed the disclosure of your Firefighters' pension fund in line with the requirements of the SORP and discussed its presentation with your officers. As a result changes were made to the disclosures within the authority's cash flow statement and your firefighters' pension fund financial statements. The changes had no impact upon the deficit shown on the authority's Income and Expenditure account for the year.

Significant weaknesses in internal control

19 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. These are detailed in paragraphs 20 to 22.

Data submission to the Government's Actuary Department

20 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 to the arrangements 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.

Self-certification of journals

21 During my audit I identified six journals processed through the ledger to the value of £1.85million which had been created and authorised by the same person. These journals related to the transfer of amounts between general ledger codes and did not impact on the Authority's cash balances. From the additional tests undertaken I was satisfied that these journals had not given rise to a misstatement in the financial statements.

Asset management module of the general ledger

22 At the time of the audit only one member of the finance team had detailed knowledge of the recently implemented asset management module. Although this did not result in any errors being identified in your financial statements this knowledge should be shared across the finance team and the authority is improving its arrangements in this area.

Outgoing Chief Fire Officer

23 I was able to satisfy myself that the provision for costs associated with the outgoing chief fire officer included in the authority's financial statements was not materially misstated.

24 At the time of writing this letter my investigations into the matter of the retirement of the previous Chief Fire Officer are ongoing and I will look to report my findings in the near future. As a result I have not yet been able to issue the statutory Value for Money (VFM) conclusion for 2009/10 or close the audit.

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

Audit fees

26 The Authority is addressing the weaknesses identified above. However, as a result of them I have had to undertake further audit testing beyond that originally planned, specifically in the area of detailed checking of the data submitted to the Government's Actuary's Department for the calculation of the Firefighters' pension fund accounting entries. This has resulted in an additional fee of £2,235. The costs relating to my investigation in the retirement of the outgoing Chief Fire Officer will be reported separately to the Authority. Appendix 1 summarises the current position.

Whole of Government Accounts

27 The Whole of Government Accounts (WGA) cover approximately 1,300 bodies. They aim to provide commercial style accounts for the public sector and are prepared by HM Treasury.

28 To support these accounts I am required to submit a consolidation pack which summarises the Authority's financial statements in a consistent way with other local government bodies. I submitted this consolidation pack with a statement confirming that it was consistent with the Authority's audited financial statements on 1 October 2010.

National Fraud Initiative

29 The Audit Commission runs the National Fraud Initiative exercise which matches electronic data within and between audited bodies to prevent and detect fraud every two years. The Authority submitted data returns for the 2008/9 exercise in line with timescales, followed up any identified matches and received full reports throughout the process. It has provided data for the current exercise and has arrangements in place to review any identified matches in early 2011.

International Financial Reporting Standards

30 Implementation of IFRS is a major challenge for all authorities and requires substantial preparatory work. Important milestones are:

- restating 2009/10 balances on an IFRS basis;
- completing skeleton accounts and updating accounting policies; and
- continuing to ensure the Audit Committee is appropriately informed and engaged in the process.

31 I am in regular dialogue with you over your progress. When I last updated my assessment, you had some minor issues in respect the determination of the treatment of a material lease, the introduction of a new requirement for the componentisation of non current assets and the level of engagement of members but were on-track to meet the targets set. The national picture is broadly similar, advising that authorities need to maintain or increase the momentum in identifying and resolving any remaining issues (available through the Audit Commission website <http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/financialmanagement/ifrs/Pages/20101005ifrsprogresstransition.aspx>.)

32 I will continue to monitor your progress and undertake a review of the restated balances once complete.

33 As noted above, the introduction of IFRS will lead to significant changes to the content and format of the financial statements. I have asked the Audit Committee to consider whether it will have the necessary skills and knowledge to fulfil its duties when presented with the accounts in June 2011. I would be happy to assist the Authority with this if you believe it would be helpful.

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 against the criteria specified by the Audit Commission and will report the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

34 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

35 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

36 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

37 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

38 I am currently considering matters relating to the retirement of the outgoing Chief Fire Officer. Until my work here is complete, I am unable to reach an overall VFM conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. However, I would hope to issue my conclusion shortly.

39 In order to assist you I have summarised my findings to date below.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance ²	Under review
Risk management and internal control ²	Under review
Managing resources	
Natural Resources	Yes
Workforce ¹	Yes
¹ Brought forward from 2008/09	
² currently subject to review as part of outgoing CFO investigation	

Managing Finances

40 The Authority has robust processes for the monitoring its finances, performance and managing its budgets. The budget is approved in a timely and efficient manner having been subjected to robust challenge on linkages between finance and service planning by members.

41 There has been a sustained focus on achieving priorities through challenging resource use. This has resulted in redirection of some resources. Centralised coordination of crewing was introduced, with a reduction in firefighter posts and introduction of a resilience register. These arrangements have enabled annual savings of £420K and increased firefighter availability. These savings have contributed to the Authority being on course to deliver the planned cashable efficiency savings of over £700K over the three year period 2008/09 to 2010/11. The introduction of a revised sickness management policy has had impact and delivered non cashable efficiency savings estimated to be worth £133K per annum.

42 There is a track record of performing within budget while achieving good service performance. The arrangements for the production of the 2009/10 financial statements were improved from last year.

Governing the Business

43 The Authority engages with communities through its community safety work and educational activities. You are an active partner to the compact agreements between public sector organisations and the voluntary community services in both constituent county areas. The consultation process for your Integrated Risk Management Plan continues to improve leading to better engagement with the shaping of future plans for service delivery. The Authority takes the lead with its other public service partners on road safety in Herefordshire to reduce the number of injuries and deaths.

44 For purchases whole life costs are considered. You work with neighbouring authorities not only to take advantage of lower costs but also on equipment to obtain compatibility of procedures, share training costs and obtain improved functionality. The Authority complies with requirements on the use of national procurement arrangements and sources purchases locally.

45 The performance management framework is robust and produces reliable data. Performance data is shared with the Authority's partners to improve services throughout the constituent county areas.

46 The Authority identified in 2009/10 that improvements could be made to its committee arrangements for example by bringing together the functions of its Budget Committee and its Best Value Committee. The review that has been undertaken has covered arrangements and terms of reference for all committees. The results of this review have been implemented in the 2010/11 year.

47 In particular the terms of reference for the Standards committee required that it meet as a minimum once in the financial year 2009/10 with additional meetings being called if issues arose. The Authority recognised that the annual frequency of meeting limited the ability of this committee to influence arrangements and so deliver its objectives. These arrangements have been reviewed by the authority.

48 The Authority is party to many partnerships and has recognised that arrangements have developed over time. A Partnership working group has been established to improve the framework in place and review the cost/benefit of its participation.

49 There is an extensive robust operational risk management framework which has been further improved in the year. A Code of Corporate Governance based on the CIPFA/SOLACE model is in place.

Managing Resources

50 The Authority is in the early stages of developing and implementing its procedures to monitor its use of natural resources. An environmental policy is in place and a strategy is being developed. The process for decisions on capital acquisitions includes consideration of environmental impact.

Approach to local value for money work from 2010/11

51 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to local VFM audit work.

52 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

53 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Authority in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Public sector finances

54 The authority's three year Medium Term Financial plan (MTFP) approved in February 2010 identified a shortfall of £2.5million in the period 2011/12 to 2013/4 based on a suite of assumptions including a minimum level of reserves of £1.5million.

55 The Government's Comprehensive Spending Review (CSR) announced on 20 October 2010 that over the four year period 2011/12 to 2014/15 the reduction to formula grant will be 25 per cent. This reduction is likely to be back-loaded by the Government so that in the first year the formula grant reduction will be single figures (in percentage terms) with the larger proportion of the cuts falling to years three and four.

56 The robustness of your financial management together with future service and financial strategies will be key to the Authority in achieving its priorities and maintaining financial resilience.

57 The Authority has recognised the reductions in funding and preparations have commenced to minimise their impact. You have already been proactive in recognising the need for change through a restructuring of roles and responsibilities at a senior level in the Authority and Meeting the Challenge project.

58 The scale of reductions in funding announced in the CSR is greater than included within the authority's MTFP. For effective financial management the Authority will have to make difficult decisions to reduce its costs, to maintain its financial standing position and to continue to closely monitor its financial position. The Chief Fire Officer has recently met with Government ministers to explain the challenges facing the service. 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.

59 The impact of the pressures on public sector finances will continue to present the Authority with significant challenges. I will continue to monitor the Authority's response and actions in this key area.

Business continuity in the fire and rescue service

60 In September 2010 the Audit Commission reported upon business continuity in the fire and rescue service³. The scope of the report was limited to a survey by the Audit Commission and self-assessment by fire services. The findings were subject to some targeted verification work and overview by expert peers. It concluded that all fire and rescue services had adequate business continuity plans in place and that resilience, nationally, was improving. Specifically for Hereford and Worcester Fire and Rescue Service it concluded:

Overall, Hereford and Worcester FRS has satisfactory business continuity management arrangements in place. The FRS has good plans in place to deal with a mass absence of staff. The Service identifies all critical activities and managers give good support for plans. It exercises the majority of plans, learning is captured and changes made as a result. Stakeholders have a high awareness of the Service's BC plans. The FRS is fully aligned to the British Standard and has undergone third-party audit. There are good arrangements in place for communicating to the public that are recently exercised and tested. The FRS identifies what capacity it needs to deal with disruptions to services. Its degradation arrangements are outlined in its Operational Intervention Resilience Plan which divides the Service in three sections that include flexi-duty, whole-time and the retained duty system (RDS). All sections are tested for all three scenarios – flu pandemic, industrial action and severe weather.

3 - Business continuity management - The fire and rescue service, Local Government Report September 2010, The Audit Commission

Closing remarks

61 I have discussed and agreed this letter with the Chief Fire Officer and the Treasurer. I will present this letter at the Audit Committee on 26 January 2011 and will provide copies to all Authority members.

62 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Authority during the year.

Report	Date issued
Opinion Audit plan	January 2010
Annual Governance Report	June 2010
Whole of Government Accounts Opinion	October 2010

63 The Authority has taken a positive and helpful approach to our audit. I wish to thank the Hereford and Worcester Fire and Rescue Authority staff for their support and cooperation during the audit.

64 Following the Government's announcement of the abolition of the Audit Commission, I would like to re-assure Authority members that we will deliver the Authority's 2010/11 and 2011/12 audits. The Audit Commission is writing to all the organisations we audit to explain that current audit arrangements will continue up to and including 2011/12 audits.

Grant Patterson
District Auditor
November 2010

Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£ 52,019	£ 49,784	£ 2,235 ⁴
Value for money	22,086	22,086	0
Total audit fees	74,105	71,870	2,235
Non-audit work	0	0	0
Total	£74105	£71870	£2235

⁴ - additional fees for additional audit procedures (paragraph 19)

Appendix 2 – Glossary

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 Authority 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 accounts, auditors must give their 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

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 money, people and time.

Whole of Government Accounts (WGA)

Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. HM Treasury coordinates WGA who decides the form and content of the accounts and chooses the bodies to be included in the accounts for any financial year.

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