

# Annual Audit Letter

8a

Shropshire and Wrekin Fire and Rescue Authority

Audit 2010/11



# Contents

---

- Key messages.....3**
  - Audit opinion and financial statements.....3
  - Value for money .....3
- Current and future challenges .....4**
- Financial statements and annual governance statement.....6**
  - Overall conclusion from the audit.....6
  - The governance framework.....6
  - Financial resilience.....7
  - International Financial Reporting Standards .....7
  - Whole Government Accounts.....7
  - National Fraud Initiative.....8
- Value for money.....9**
- Closing remarks .....11**
- Appendix 1 - Fees.....12**
- Appendix 2 - Glossary.....13**

**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.

The matters reported here are those that I consider are most significant for the Authority.

Key audit risk	My findings	Conclusion
Unqualified audit opinion	I issued an unqualified opinion on the Authority's financial statements on 29 September 2011.	●
Proper arrangements to secure value for money	I issued an unqualified VFM conclusion on the Authority's arrangements to secure value for money on 29 September 2011.	●

## Audit opinion and financial statements

I provided an unqualified opinion on your financial statements, including the firefighters' pension fund, as I considered them to be true and fair, and presented without material misstatement.

The financial statements were produced ahead of the statutory deadline and earlier than many other local government bodies. There was one material misstatement which was amended for. I also recommended a number of changes and additional disclosures to ensure compliance with the International Financial Reporting Standards which were actioned.

## Value for money

I am required to satisfy myself that the Authority has made proper arrangements for securing value for money. 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.

On the basis of my work I am satisfied that in all significant respects Shropshire & Wrekin Fire and Rescue Authority put in place proper arrangements to secure value for money in its use of resources for the year ending 31 March 2011.

# Current and future challenges

---

The Authority is facing several challenges, both internally and externally, which it is preparing for.

<p>Economic downturn and pressure on the public sector</p>	<p>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. 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.</p> <p>You are addressing the challenge through setting a balanced budget for the next five financial years. This requires some retirement planning, resulting in surpluses in Years 1 to 3, to support deficits in Years 4 and 5 when the revenue grant cuts are at their greatest. Your review of your core service delivery requirements will be used to drive future budget setting and you are also in the process of reviewing your capacity for capital projects over the next few years to ensure that the most urgent needs are addressed and investments have a payback in the longer term.</p> <p>You will be incorporating your medium term financial plan within your business plan to strengthen links between finance and service delivery and through my value for money work I am satisfied that your arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness are sound.</p>
<p>Joint arrangements</p>	<p>The Authority has close working relationships with Shropshire Council. There are service level agreements in place for many aspects including pension administration, valuer services and most recently for the provision of your Treasurer.</p> <p>The Authority has a strong and developing strategic alliance with Hereford &amp; Worcester Fire and Rescue Authority. Any changes to 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 try to support service delivery in some of the most rural parts of the counties.</p>
<p>Income streams</p>	<p>Ministers have determined that capital funding for 2011/12 will be allocated via a pro-rata method relating to population figures. Every Authority will receive a £500,000 baseline payment with the remaining grant allocated according to their population. This poses particular risks for large, sparsely populated counties which you have factored in to your thinking. The method of allocation for capital for years 2012 to 2015 is currently under review. Ministers are considering a number of options including a fund administered via a bidding process.</p>

Revenue grant includes an initial amount of funding of £20,000 to support transitional planning and implementation efforts for future control room arrangements. There is also an additional £43,000 for Shropshire & Wrekin Fire and Rescue Authority for New Dimension Assets. Firelink funding will be reduced to reflect changes to the inflation rate and reduced Airwave service fees. It is expected that further funding will be made available subsequently in light of the responses to the recent consultation on future control room arrangements.

There is still uncertainty over some of this funding. Looking forward to 2012/13 a key area for judgment when determining the precept will be balancing short term gains from grants available with longer term financial stability which you are doing by factoring uncertainties into your financial projections.

---

#### National initiatives

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. The Authority is already well placed to address these issues through its new range of PIs and established ways of consulting with local communities. However, it will need to review its position once the new Framework is published.

In September 2011 the Government published:

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

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 already has a culture of openness and is being proactive to demonstrate compliance through the development of a transparency web page but will need to keep the requirements under review.

The streamlined Best Value Statutory Guidance sets out Government's expectations of the way authorities should work with voluntary and community groups and 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 is again well placed through its performance management arrangements and approach to local consultation to meet the Government's expectations but will need to ensure its response is proportionate.

# Financial statements and annual governance statement

---

**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**

I issued an unqualified opinion on your financial statements. The accounts contained one material misstatement which management amended for relating to the disclosure of capital grants. I recommended a number of changes and additional disclosures to ensure compliance with the International Financial Reporting Standards which were made by management. The conclusions from my audit of your 2010/11 financial statements are included in my Annual Governance Report which was presented to the Audit & Performance Management Committee on 8 September 2011.

## **The governance framework**

I did not identify any significant weaknesses in your internal control arrangements. Overall you have adequate arrangements in place for securing internal control.

The Authority makes an annual governance statement within its financial statements in line with the 'Delivering Good Governance in Local Government' guidance. I reviewed the issues you raised as significant governance issues and consider that they are consistent with my understanding of the Authority. I have also reviewed the Authority's risk management arrangements and consider these to be adequate.

I consider that the key areas for developing in 2011/12 are:

- completion of the relocation project for Fire Control to the new Shrewsbury Headquarters to continue the high standards of service delivery;
- completion of the structural changes for support for front line staff, particularly Retained Duty Service firefighters; and
- redesign of the Local Area Network to ensure that any future failures in ICT are minimised and loss of data prevented.

These areas will be of particular importance with the increasing financial pressures going forward.

## Financial resilience

Before issuing my opinion, I consider whether the Authority has sound financial resilience to ensure that it can continue operating for the foreseeable future. The Authority set a revenue budget of £21.618 million in 2010/11 which was underspent through service redesign by £1.201 million, as part of the cost cutting process. This was transferred to the General Fund and reserves. There was also an underspend on the capital budget. This was mainly due to expenditure being carried forward to 2011/12 for the completion of large projects. The Authority has utilised reserves which it had allocated in previous years for large known items of expenditure in 2010/11 and has continued to prudently set aside monies for commitments it has for future years.

You have undertaken a robust budget setting process which has enabled you to agree a balanced budget for the next five financial years, supported by the use of some reserves. This reflects the savings which are required following the cuts to government funding from 2011/12 onwards. On this basis I am satisfied that your financial resilience is sound.

## International Financial Reporting Standards

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 financial statements including the number of disclosures required and the accounting policies.

The implementation of IFRS in Local Government has been a significant challenge for all authorities. The Authority provided financial statements which were in the revised format. The recommended template from CIPFA had been used as a basis for their presentation, although my work identified a number of amendments which were required to ensure that the statements were IFRS compliant. However, the changes were made allowing me to provide an unqualified opinion. It would be good practice for the Authority to continue to assess future changes in the IFRS requirements as a formal part of their accounts preparation each financial year.

## Whole Government Accounts

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 the Treasury. To support these accounts, I am required to submit a consolidation pack which summarises the Authority's financial statements in a consistent way with all other public sector bodies. This enables transactions between the various bodies to be identified so they are not double counted within the final set of Government Accounts. I submitted this consolidation pack with a statement confirming that it was consistent with your audited financial statements on 29 September 2011.

## National Fraud Initiative

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

I reviewed the Authority's progress in relation to investigating the matches identified and found that adequate progress had been made, The Authority had started with the matches presenting the highest risk of fraud and is now working through the remaining matches. There were no material frauds identified. The Authority has until January 2012 to complete the remaining matches and is currently on target to do this.



# 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 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
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>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.</p>	<p><b>Financial governance</b></p> <p>There is appropriate capacity at a senior level to provide strong leadership to the Authority.</p> <p>The leadership team has a sound understanding of the current financial environment and undertakes robust planning for the medium and long term.</p> <p>There is a strong link between the Corporate Plan and Integrated Risk Management Plan which is communicated to all employees through visits by members of the leadership team to each fire station.</p> <p><b>Financial planning</b></p> <p>The Authority has a detailed Medium Term Financial Plan in place which has undergone scenario planning for uncertain aspects, eg future grant funding and other key sources of income.</p> <p>There is a culture of recognising liabilities as soon as known to ensure that reserves are sufficient to meet future expenditure.</p>

## Criterion

## Key messages

### Financial control

Budgets are generally not exceeded with expenditure being controlled well. 2010/11 saw planned underspends which the Authority has detailed in its financial statements and rolled forward to support expenditure which had slipped for various reasons. This is not at a level which indicates weaknesses in financial control.

The Authority uses financial ratios to identify areas of poor performance or where improvements or efficiencies could be made. Performance has been at a high standard with the majority of the performance indicators used improving year on year.

### 2. Securing economy efficiency and effectiveness

#### The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

### Prioritising resources

Senior team provides clear leadership on spending priorities and demonstrates a hands on approach to understanding the latest resource requirements of the job.

The Fire Authority has adopted a formal process of public value review through the Strategic Risk and Planning Group (STRaP) which is intended to deal with major changes to the way the service is delivered and whether existing services are considered a priority by the public.

Performance management is strong and appropriately challenged by the Audit and Performance Management Committee, considering a range of indicators covering financial, service delivery and performance aspects.

There has been good local consultation on developing PIs that are relevant to the service and the local community and to which the Authority will hold itself accountable.

Appropriate cost benefit analysis has always been undertaken with many back office services being outsourced already. The Audit Commission VFM profiling tool has been used to identify other similar Authorities who provide services more efficiently where examples of better practice may be obtained.

There is a good track record of working in partnership, both within the local County area and also with neighbouring Fire & Rescue Authorities.

### Improving efficiency and productivity

The Authority understands its unit costs and has explanations for any outliers. Efficiencies are made where possible, but some higher unit costs are accepted due to having to provide services to a rural area with a relatively low population. No station closures or reductions in services are currently planned.

The FiReControl project has required a root to branch review of the way the service is delivered and will be delivered in future. This has enabled the Authority to work more closely with Hereford & Worcester FRA and challenge its overall service delivery.

# Closing remarks

---

I have discussed and agreed this letter with the Chief Fire Officer and the Head of Finance. I will present this letter at the Audit & Performance Management Committee on 24 November 2011 and copies will be available to all 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
Initial risk assessment and proposed audit fee	June 2010
Opinion plan testing strategy	February 2011
Report to those charged with governance - Annual Governance Report	September 2011
Opinion on the financial statements	September 2011
Value for money conclusion	September 2011
Annual Audit Letter	November 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

November 2011

# Appendix 1 - Fees

---

	Actual	Proposed	Variance
Core audit fee *	£69,000	£69,000	-
<b>Total</b>			

\* The Audit Commission is paying a rebate of £5,091 to you.

# 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 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.

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

