

Annual Audit Letter

December 2005



**9a**

Shropshire and Wrekin Fire Authority  
8 February 2006

# **Annual Audit Letter**

**Shropshire and Wrekin Fire Authority**

**Audit 2004-2005**

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

### **Status of our reports to the Authority**

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2005

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

# Contents

<b>Key messages</b>	<b>4</b>
Performance	4
The accounts	4
Financial aspects of corporate governance	5
Action needed by the Authority	5
<b>Performance</b>	<b>6</b>
Comprehensive Performance Assessment (CPA)	6
Best value performance plan (BVPP)	8
<b>Accounts and governance</b>	<b>9</b>
Audit of 2004/05 accounts	9
Financial standing	10
Systems of internal financial control	11
Standards of financial conduct and the prevention and detection of fraud and corruption	11
Legality of transactions	11
<b>Other work</b>	<b>12</b>
National Fraud Initiative	12
<b>Looking forwards</b>	<b>13</b>
Future audit work	13
Revision to the Code of Audit Practice	13
<b>Closing remarks</b>	<b>14</b>
Availability of this letter	14
<b>Appendix 1 – Background to this letter</b>	<b>15</b>
The purpose of this letter	15
Audit objectives	15
<b>Appendix 2 – Audit reports issued</b>	<b>17</b>
<b>Appendix 3 – Audit fee</b>	<b>18</b>

## Key messages

### Performance

- 1 This year has been one of significant change for fire authorities with the introduction of the Comprehensive Performance Assessment (CPA) providing a detailed analysis of authority performance. CPA is an assessment, at the corporate level, of how well the authority is run. It does not give an opinion on how well the fire service responds to emergency incidents.
- 2 The overall assessment of the CPA was that the Authority was categorised as 'good'. The Authority's demonstrated strengths in respect of the commitment of its staff, wide communication of its vision and effective corporate governance arrangements. However, some areas for improvement were also identified and these include:
  - developing a medium-term financial strategy;
  - updating the IT strategy; and
  - costing the IRMP.
- 3 In response to the CPA, the Authority has identified its improvement priorities and these are clearly set out in the 2005/06 performance plan. Progress on these issues will be closely monitored by members through the Performance Management Committee. The priorities will also form an important element in the planning of future audit and inspection work.

### The accounts

- 4 We gave an unqualified opinion on the accounts on 31 October 2005.
- 5 The accounts were again prepared well in advance of the statutory deadline and we noted that the quality of the supporting working papers has improved over the previous year.
- 6 We drew to your attention a significant issue in respect of the Authority's accounting for reserves and provisions. The Authority had previously agreed to transfer the balance from the Firefighters Pension Scheme Provision into the Efficiency Reserve (created to fund one-off investments, such as staffing-related costs, new vehicles or equipment aimed at delivering long-term efficiencies). However, as the Government proposals in respect of changes to the funding of firefighters' pensions were only at the consultation stage when the accounts were approved it was necessary for the Treasurer to retain £730,000 as a Firefighters Pension Scheme Provision in the 2004/05 Statement of Accounts.

## Financial aspects of corporate governance

- 7 The Fire Authority has adequate arrangements in place to:
  - ensure its financial standing is soundly-based;
  - deal with the legality of transactions that might have significant financial consequences;
  - ensure there are adequate and effective systems of internal financial control; and
  - maintain proper standards of financial conduct and to prevent and detect fraud and corruption.
- 8 Governance arrangements could be improved further by a nominated committee taking responsibility for:
  - the formal monitoring of Internal Audit performance; and
  - agreeing the external audit plan.

## Action needed by the Authority

- 9 The Authority should:
  - continue to monitor progress on the improvement priorities arising from the CPA review and continue to report this to members; and
  - nominate a committee to take responsibility for monitoring the performance of Internal Audit and agreeing the external audit plan.

## Performance

- 10 The overall assessment of the CPA was that the Authority was categorised as 'good'. The Authority demonstrated strengths in respect of the commitment of its staff, wide communication of its vision and effective corporate governance arrangements. However, some areas for improvement were also identified, in particular the need to develop a medium-term financial strategy which is linked to the cost of achieving service objectives.

## Comprehensive Performance Assessment (CPA)

- 11 The Comprehensive Performance Assessment (CPA) was developed by the Audit Commission, in partnership with the fire service, Her Majesty's Fire Service Inspectorate and the Government. It is an assessment, at the corporate level, of how well a fire authority is being run. It does not give an opinion on how well the fire service responds to emergency incidents. Authorities receive an overall score by being placed in one of five categories (excellent, good, fair, weak and poor).
- 12 The results of Shropshire and Wrekin Fire Authority's assessment are detailed below. Scores are on a 1 to 4 basis, with 1 being the lowest and 4 the highest.

**Table 1 Summary of assessment scores**

<b>A - What is the Authority trying to achieve?</b>	<b>Score</b>
Leadership and priorities	3
A balanced strategy	3
<b>B - How has the Fire Authority set about delivering its priorities?</b>	
Capacity: Governance and management	3
Capacity: Resources and value for money	2
Capacity: People	3
Performance management	3
<b>C- What has the Fire Authority achieved and, in the light of that, what does it plan to do next?</b>	
Achievement of objectives	3
Achievement of improvement	3
Future plans	3
<b>OVERALL CPA SCORE</b>	<b>Good</b>

- 13 The main strengths of the Authority were identified as:
- the commitment of its staff;
  - wide communication of its vision;
  - developing retained staff through the integrated personal management development system;
  - giving priority to regional working;
  - undertaking community fire safety work as a matter of routine; and
  - effective corporate governance arrangements.
- 14 Areas for improvement were also identified and these include:
- developing a medium-term financial strategy;
  - updating the IT strategy; and
  - costing the IRMP.
- 15 The Authority has considered and integrated the CPA findings within its existing performance management framework. The 2005/06 performance plan includes a suite of service objectives, all linked to the strategic aims and corporate objectives which have been categorised into three areas of priority - gold, silver and bronze. The priority level takes into account the National Framework 'musts' and 'shoulds' as well as the CPA findings. A key objective for 2005/06 is to achieve 100 per cent of gold objectives, 50 per cent of silver and 25 per cent of bronze. Progress on these issues will be closely monitored by members through the Performance Management Committee.
- 16 A review of the priority areas within the performance plan indicates that the main CPA areas for improvement have not been ranked as 'gold' objectives. The development and implementation of an IT strategy has only been ranked as 'bronze' with the development of longer term finance plans as 'silver'. This is due to these areas being of lesser priority in the National Framework. Despite these lower rankings the Chief Fire Officer's report to Committee in September 2005 indicates that the Authority is on course to achieve these objectives during 2005/06.
- 17 Following on from the CPA process, we will continue to monitor your improvement planning process and will report to members as appropriate. The relationship manager, appointed from 1 December 2005 will be the Commission's primary point of contact with the authority and is the interface at the local level between the Commission, other inspectorates, government offices and other key stakeholders. This role is aimed at ensuring delivery of:
- the provision of a seamless local Audit Commission service to the Fire Authority;
  - the delivery of relevant and proportionate audit and inspection;
  - the promotion of service improvement and a user focus; and
  - the improvement of information flows and dialogue between the Fire and Rescue Authority and the Audit Commission.

## **Best value performance plan (BVPP)**

- 18 The Authority's BVPP was published in June 2005. Errors were subsequently identified in three performance indicators and an addendum to the performance plan will be published on the website.
- 19 We are required to ensure that:
  - the plan complies with statutory requirements; and
  - performance information is robust.
- 20 This work is complete and no matters have arisen that we need to bring to the attention of members.

## Accounts and governance

- 21 We have given your accounts an unqualified audit opinion.
- 22 Your overall corporate governance arrangements are satisfactory in most key areas. However, governance arrangements could be improved further by a nominated committee taking responsibility for the formal monitoring of Internal Audit performance and agreeing the external audit plan.

### Audit of 2004/05 accounts

- 23 We gave an unqualified opinion on the Authority's accounts on 31 October 2005.

#### Matters arising from the final accounts audit

- 24 The published accounts are an essential means by which the Authority reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the Authority's accounts on 20 July 2005.
- 25 The accounts were again prepared well in advance of the statutory deadline and, other than the amendment referred to below only minor inaccuracies were identified.
- 26 We noted that the quality of the supporting working papers has improved over previous years.

#### Report to those with responsibility for governance in the Authority

- 27 We are required by professional standards to report to those charged with governance (in this case the Fire Authority) certain matters before we give an opinion on the financial statements.
- 28 We reported to the Fire Authority on 20 July 2005 to draw to your attention a significant issue in respect of the Authority's accounting for reserves and provisions.
- 29 The Authority had previously agreed to set up a new reserve known as the Efficiency reserve (created to fund one-off investments such as staffing-related costs, new vehicles or equipment aimed at delivering long-term efficiencies). Transfers into this reserve were to include the balance from the Firefighters Pension Scheme Provision. Whilst new legislation was proposed by government in respect of the funding of firefighters' pensions there was no change in the law before the accounts were approved and there was still a present obligation that could be estimated with reasonable accuracy.
- 30 The Treasurer therefore retained £730,000 as a Firefighters Pension Scheme Provision in the 2004/05 Statement of Accounts.

## Financial standing

- 31 The Authority's financial position remains sound and adequate budget setting and monitoring arrangements exist. Arrangements are strengthened by the operation of the budget working group who scrutinise the set budgets, monitor budget variances and question whether budgets support strategic priorities. There is clear member engagement in budget setting and future financial strategy decisions.
- 32 During the 2004/05 year, the Authority became a precepting authority and set its budget requirement at £17.1 million which was an increase of 11.8 per cent on the 2003/04 budget. At the end of the year, net expenditure totalled £16.8 million, an underspend of 1.5 per cent.
- 33 The need to maintain adequate balances is a requirement under section 43 of the Local Government Finance Act 1992. The Authority determined that it should have a general reserve of 3 per cent of revenue expenditure by 31 March 2006 with a long-term objective of 5 per cent. The balance on the general reserve at 31 March 2005 was £612,000. After allowing for £106,000 of expenditure that has slipped into 2005/06, the true reserve position is £506,000 which represents 3 per cent of net expenditure. The Authority has therefore achieved the 3 per cent of revenue expenditure a year early.
- 34 In addition, the Authority has created an Efficiency Reserve to fund one-off investments aimed at delivering long-term efficiencies. This could include investment in staff structure, vehicles and equipment, property or lump sum payments for sickness-related or other pension costs. Such investments will be subject to the Authority's normal approval process. The reserve is to be funded from budgeted contributions and one off net underspends.
- 35 The balance stood at £336,000 at 31 March 2005. This included underspends from firefighters' pension-related budgets which were lower than anticipated during 2004/05, particularly on transfer of pensions to other brigades.
- 36 For 2005/06, the Authority set a budget of £17.9 million an increase of 5 per cent over 2004/05. The Authority consulted throughout the budget setting process including commissioning of public consultation through Opinion Research Services.
- 37 The budget monitoring report for April to July 2005 predicts an underspend of around £500,000.

## Systems of internal financial control

- 38 We have not identified any significant weaknesses in the overall control framework, which continues to be soundly-based.
- 39 As part of its preparation of the 2004/05 Statement on Internal Control (SIC), the Authority reviewed all the relevant systems during April and May 2005. This process, which involved all senior officers identified areas for further improvement. An improvement plan has been produced and this will be monitored by the Risk Management Group which, via the Policy Group will report to the Authority at least twice-yearly. Areas identified for improvement include embedding risk management procedures into all aspects of the Authority's performance management processes and the development of a code of conduct for all staff.
- 40 The SIC was considered by the Finance and Performance Management Committee in June 2005 and subsequently approved by the Fire Authority in July.

## Internal Audit

- 41 Our assessment is that Internal Audit provides an effective service overall. The quality and scope of their work is of a good standard and complies with relevant professional standards. We have placed reliance upon their work for our opinion purposes and we will continue to work closely with them.

## Standards of financial conduct and the prevention and detection of fraud and corruption

- 42 The Authority has adequate arrangements in place to maintain proper standards of financial conduct and to prevent and detect fraud and corruption. However, arrangements could be enhanced by a nominated committee taking responsibility for the formal monitoring of Internal Audit performance and agreeing the external audit plan.
- 43 Currently the Treasurer receives and actions Internal Audit reports, reporting only significant issues to Authority members. Similarly our Audit Plans are agreed by the Treasurer following discussions with senior officers.

## Legality of transactions

- 44 We have not identified any significant weaknesses in the framework established by the Authority for ensuring the legality of its significant financial transactions.

## Other work

### National Fraud Initiative

- 45 In 2004/05, the Authority took part in the Audit Commission's National Fraud Initiative (NFI 2004/05). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include payroll and housing benefit fraud, with the details of housing benefit fraudsters being passed back to the employing body to allow them to consider the implications and take action as appropriate.
- 46 Where little or no such fraud is identified, then the Authority can gain assurance about internal arrangements for preventing and detecting fraud.
- 47 The NFI 2004/05 results were distributed on CD-ROM on 31 January 2005 and participating bodies are required to provide savings returns reporting progress made. The Authority's Principal Accountant has reviewed the NFI results and all queries have been satisfactorily resolved.

## Looking forwards

### Future audit work

- 48 We have an agreed Audit Plan for 2005/06. The work includes the introduction of a service assessment, a use of resources judgement and a direction of travel statement. The detail of this work will be the subject of detailed consultation in the new year. The key elements of our audit work for 2005/06, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter.
- 49 We seek to ensure, wherever possible, that our work relates to the improvement priorities of the Authority. We will continue with this approach when planning our programme of work for 2006/07.

### Revision to the Code of Audit Practice

- 50 The statutory requirements governing our audit work are contained in:
- the Audit Commission Act 1998; and
  - the Code of Audit Practice (the Code).
- 51 The Code has been revised with effect from 1 April 2005 and further details are included in our Audit Plan. The key changes include:
- the requirement to draw a positive conclusion regarding the Authority's arrangements for ensuring value for money in its use of resources; and
  - a clearer focus on overall financial and performance management arrangements.

## Closing remarks

- 52 This letter has been discussed and agreed with the Chief Fire Officer and the Treasurer. A copy of the letter will be presented at the Performance Management Committee on 20 December 2005 and made available to all members.
- 53 The Authority has taken a positive and constructive approach to our Audit and I would like to take this opportunity to express my appreciation for the Authority's assistance and co-operation.

## Availability of this letter

- 54 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Authority's website.

Tony Corcoran  
District Auditor  
December 2005

# Appendix 1 – Background to this letter

## The purpose of this letter

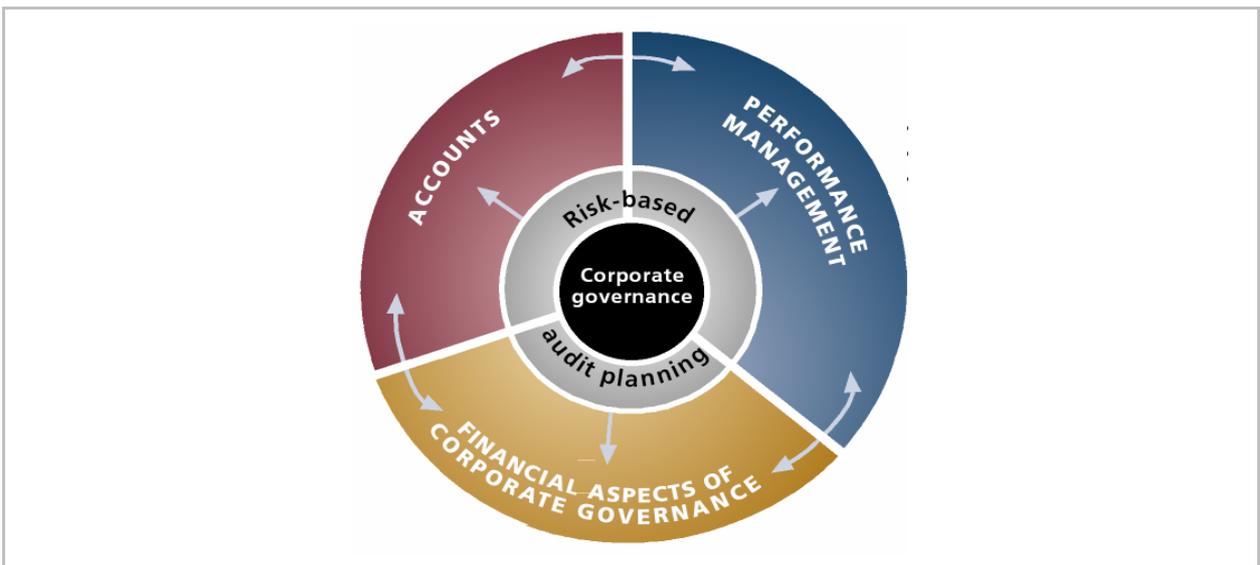
- 1 This Annual Audit Letter summarises the conclusions and significant issues arising from our recent audit of the Authority.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 4 Appendix 3 provides information about the fee charged for our audit.

## Audit objectives

- 5 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

**Figure 1 Code of Audit Practice**

Code of practice responsibilities



- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

### **Accounts**

- Opinion.

### **Financial aspects of corporate governance**

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

### **Performance management**

- Use of resources.
- Performance information.
- Best value performance plan.

## Appendix 2 – Audit reports issued

---

**Table 2**

<b>Report title</b>	<b>Date issued</b>
Audit Plan 2005/06	March 2005
Comprehensive Performance Assessment (CPA)	July 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	July 2005
Annual Audit Letter	December 2005

## Appendix 3 – Audit fee

**Table 3      Audit fee update**

<b>Audit area</b>	<b>Plan 2004/05</b>	<b>Anticipated actual 2004/05</b>
Accounts	£24,529	£24,529
Financial aspects of corporate governance	£7,327	£7,327
Performance	£14,230	£14,230
<b>Total fee</b>	<b>£46,086</b>	<b>£46,086</b>