



# **HEREFORD & WORCESTER Fire and Rescue Authority**

## **Audit Committee**

# **AGENDA**

**Wednesday 18 January 2012**

10.30 am

Conference Suites 2 & 3

Headquarters

2 Kings Court

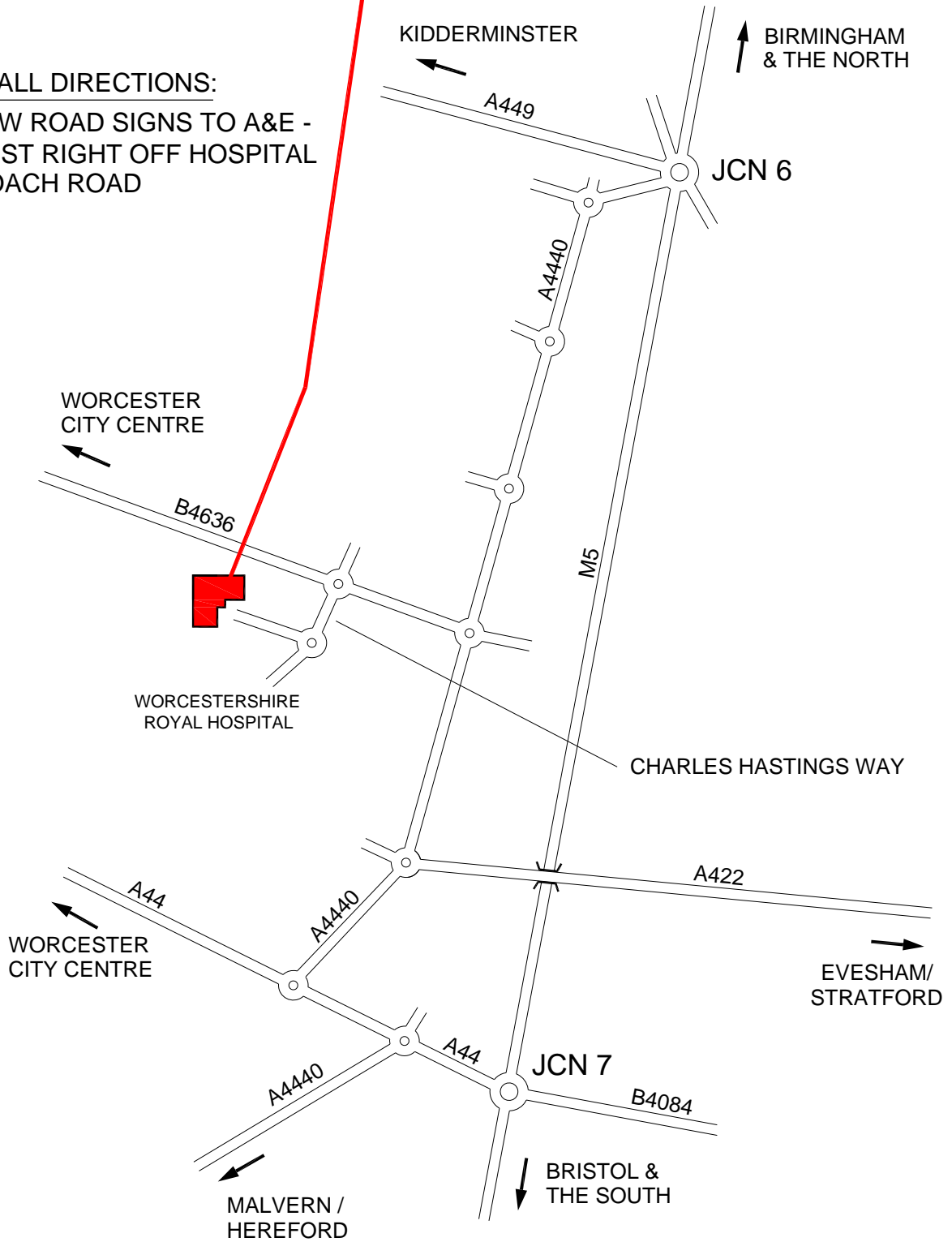
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WR5 1JR

HEREFORD & WORCESTER FIRE AND RESCUE SERVICE  
 HEADQUARTERS  
 2 KINGS COURT  
 CHARLES HASTINGS WAY  
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FROM ALL DIRECTIONS:  
 FOLLOW ROAD SIGNS TO A&E -  
 HQ FIRST RIGHT OFF HOSPITAL  
 APPROACH ROAD



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## **WELCOME AND GUIDE TO TODAY’S MEETING**

These notes are written to assist you to follow the meeting. Decisions at the meeting will be taken by the **Councillors** who are democratically elected representatives and they will be advised by **Officers** who are paid professionals. The Fire and Rescue Authority comprises 25 Councillors and appoints committees to undertake various functions on behalf of the Authority. There are 19 Worcestershire County Councillors on the Authority and 6 Herefordshire Council Councillors.

### **Agenda Papers**

Attached is the Agenda which is a summary of the issues to be discussed and the related reports by Officers.

### **Chairman**

The Chairman, who is responsible for the proper conduct of the meeting, sits at the head of the table.

### **Officers**

Accompanying the Chairman is the Chief Fire Officer and other Officers of the Fire and Rescue Authority who will advise on legal and procedural matters and record the proceedings. These include the Clerk and the Treasurer to the Authority.

### **The Business**

The Chairman will conduct the business of the meeting. The items listed on the agenda will be discussed.

### **Decisions**

At the end of the discussion on each item the Chairman will put any amendments or motions to the meeting and then ask the Councillors to vote. The Officers do not have a vote.

## **Agenda**

### **Members**

Mrs L Duffy, (Chair), Mrs L Hodgson (Vice-Chair),  
Mr J Cairns, Mr D Greenow, Mrs G Hopkins, Mr B Matthews, Mrs F Oborski, Mr T  
Spencer, Mr J Thomas and Mr P Watts.

<b>No</b>	<b>Item</b>	<b>Pages</b>
<b>1.</b>	<b>Apologies for Absence</b> To receive any apologies for absence.	
<b>2.</b>	<b>Named Substitutes</b> To receive details of any Member of the Authority nominated to attend the meeting in place of a Member of the Committee.	
<b>3.</b>	<b>Declaration of Interests (if any)</b> The Members' Code of Conduct requires Councillors to declare any interests against an Agenda item, the nature of an interest and whether the interest is personal or prejudicial. If a Councillor has a personal interest, they must declare it but can stay, take part and vote in the meeting. If a Councillor has a prejudicial interest then they must declare what that interest is and leave the meeting room for the duration of the item.  This item allows the Chairman to invite any Councillor to declare an interest in any of the items on this Agenda.	
<b>4.</b>	<b>Confirmation of Minutes</b> To confirm the minutes of the meetings held on 28 September 2011 and the Special Meeting held on 7 November 2011 (copies attached).	<b>1 - 6</b>
<b>5.</b>	<b>Annual Audit Letter 2010/11</b>  To present the Annual Audit Letter 2010/11 from the Audit Commission.	<b>7 - 26</b>
<b>6.</b>	<b>Audit Plan 2011/2012</b>  To consider the Audit Plan from the Audit Commission that sets out the work for the 2011/12 audit.	<b>27 - 50</b>

<b>7. Audit Committee Update</b>	<b>51 - 65</b>
To provide the Committee with a report from the Audit Commission on their progress in delivering their responsibilities as the Authority's external auditors.	
<b>8. Update on Auditors' Recommendations</b>	<b>To follow</b>
To update Members on the progress to meeting the recommendations of the external auditor in his report of 28 October 2011.	
<b>9. Internal Audit Update</b>	<b>66 - 68</b>
To provide an update on Internal Audit activities since the Audit Committee meeting on 28 September 2011.	
<b>10. Internal Audit Programme 2011/12</b>	<b>69 - 73</b>
To present the Internal Audit Programme 2011/12 provided by the Worcestershire Internal Audit Service for approval.	
<b>Glossary</b>	<b>74 - 77</b>



## Minutes

### Members Present

Mrs. L Duffy (Chair), Mrs L Hodgson (Vice-Chair), Mr J Cairns, Mrs G Hopkins, Mrs F Oborski, Mr T Spencer and Mr J Thomas, Mr P Watts.

- | No. | Item   |
|-----|--|
| 1.  | <b>Apologies for Absence</b><br>Mr. D Greenow and Mr. B Matthews.  |
| 2.  | <b>Named Substitutes</b><br>None.  |
| 3.  | <b>Declaration of Interests (if any)</b><br><br>The Chairman invited any Member to declare an interest in any of the items on this Agenda. The following interest was declared: <ul style="list-style-type: none"><li>• Mrs. L Hodgson - personal and prejudicial interest in relation to item 10 Internal Audit Arrangements – she is a Worcester City Councillor.</li></ul>  |
| 4.  | <b>Confirmation of Minutes</b><br><b>RESOLVED that the minutes of the meeting held on 29 June 2011 be confirmed as a correct record and signed by the Chairman.</b>  |
| 5.  | <b>External Audit Annual Governance Report 2010/11</b><br><br>The Treasurer apologised to the Committee for the lateness of the Accounts and thanked the Auditors for their patience.<br><br>The District Auditor presented the Annual Governance Report, which was tabled at the meeting and explained that the transition to International Financial Reporting Standards (IFRS) together with reduced capacity in the Finance Team had had a significant impact on the length of time taken to produce the accounts and on the quality of the financial statements and working papers. This had led to a postponement of the audit, which resulted in an additional cost of £7,000 to the Authority.<br><br>The District Auditor explained that although he had been unable to complete his work due to some outstanding issues he planned to give an unqualified audit opinion. He stated it was necessary for the Committee to approve the letter of representation on behalf of the Authority before the Auditor could issue his opinion and conclusion.<br><br>The District Auditor informed the Committee that he also planned to issue an unqualified value for money conclusion as he expected to conclude that the |

Authority had sound financial governance and good financial control. Members expressed concern that the issues raised by the Auditor should be addressed prior to future audits and that controls should be put in place to reduce future risks with regards to the quality of financial statements and working papers.

The Treasurer assured Members that resourcing for the 2011/12 accounts process would be addressed in a timely manner to enable the accounts to be produced on time in future.

Mr J Cairns abstained from the vote.

***RESOLVED that:***

- i) the External Audit Annual Governance Report 2010/11 be noted;***
- ii) the letter of representation be approved on behalf of the Authority; and***
- iii) the response to the proposed action plan be agreed.***

**6. Statement of Accounts**

The Treasurer presented the Accounts, which were tabled at the meeting and explained that the Accounts were no longer prepared on the basis of UK “Generally Accepted Accounting Practice” (GAAP) but were instead produced under the International Finance Reporting Standards (IFRS) bases in full.

The Treasurer explained in detail to Members the Core Financial Statements i.e. the Movement in Reserves Statement, the Comprehensive Income & Expenditure Statement, the Balance Sheet and Cash Flow Statement.

The Committee commended the Finance Team for their hard work in producing the accounts in such detail.

Mr J Cairns abstained from the vote and declared this was due to late receipt of the accounts.

***RESOLVED that the Statement of Accounts 2010/11 be approved.***

**7. Annual Governance Statement**

The Clerk presented the Annual Governance Statement and Supporting Assurances for consideration by the Committee and stated that at its meeting on 29 June 2011, the Committee had reviewed the draft Statement and Supporting Assurances prior to the final approval, in line with the best practice as recommended by CIPFA.

The Clerk explained that there were no significant governance issues that had been identified and that the Governance Review Group would continue to produce recommendations over the coming year to address and further enhance the Authority’s governance arrangements.

**RESOLVED that the Annual Governance Statement and Supporting Assurances be approved.**

## 8. Risk Management Strategy and Strategic Risk Register

The Acting Director of Corporate Services explained that the effectiveness of the arrangements to manage risk had been reviewed and that a revised strategy had been developed to ensure the Authority identified strategic risks. The Strategic Risk Register had been prepared to identify controls which mitigated the identified risks.

***RESOLVED that the revised Risk Management Strategy and Policy and the live Strategic Risk Register be recommended to the Authority for approval.***

## 9. Internal Audit Update

The Chief Internal Auditor informed the Committee that Worcestershire County Council would no longer provide Internal Audit Services to the Fire and Rescue Authority and responsibility for the provision of the service would be transferred to a Consortium hosted by Worcester City Council.

The Chief Internal Auditor stated that there were no outstanding issues with regards to the Internal Audits that had taken place.

***RESOLVED that the report be noted.***

[Mrs L Hodgson left the meeting]

## 10. Internal Audit Arrangements

The Treasurer stated that his report on the matter had previously been considered by all Members at the earlier full Authority meeting. Following a question from a Member the Treasurer explained that if there were any indication that the number of audits would exceed the budget then the Internal Audit Plan would be reviewed. The Clerk stated that the Internal Audit Plan would be considered and approved by the Committee.

Following further questions from Members, the Chief Fire Officer explained that the internal audit plan would be agreed by the Committee prior to the audits taking place. The District Auditor stated that there was more flexibility with regards to Internal Audit work in comparison with External Audit, therefore it would be unlikely that additional work would be carried out which was not included in the Internal Audit Plan.

***RESOLVED that the report be noted.***

The meeting concluded at 2.23pm

Signed: \_\_\_\_\_

Chairman

Date: \_\_\_\_\_



## Minutes

### Members Present

Mrs. L Duffy (Chair), Mr T. Bean, Mr J Cairns, Mr D. Greenow, Mrs G Hopkins, Mr T Spencer and Mr J Thomas,

- | No. | Item  |
|-----|---|
| 1.  | <b>Apologies for Absence</b><br>Mrs L Hodgson (Vice-Chair), Mrs F Oborski, Mr. B Matthews and Mr P Watts.   |
| 2.  | <b>Named Substitutes</b><br>Mr T. Bean substituted for Mrs F. Oborski.  |
| 3.  | <b>Declaration of Interests (if any)</b><br>None.   |
| 4.  | <b>Settlement of Outstanding Claim</b><br>The Clerk explained that the Authority had previously given officers delegated authority to negotiate and settle the legal claim of £1.2 million made against the Authority by the outgoing Chief Fire Officer and the consequent claims against the constituent Councils.<br><br>The Clerk informed the meeting that the Authority had settled the claim and the total cost to the Authority had been £74,500, which had been met from the 2010/11 revenue budget.<br><br>The Committee thanked all those involved in resolving the situation.<br><br><b>RESOLVED that the Committee noted the report.</b>   |
| 5.  | <b>Retirement of the Chief Fire Officer</b><br>The District Auditor thanked the Authority, its current and former staff and the constituent Councils for their support and co-operation during his investigation into the retirement of the former Chief Fire Officer.<br><br>The District Auditor presented his report and explained that although it was unlikely the Authority would have to deal with a matter of this kind in future, due to its complex and technical nature, the decisions taken by the Authority had resulted in unnecessary costs.<br><br>The District Auditor explained that the key focus of his report was to identify learning points and he presented his key findings, conclusions and recommendations to the Committee. |

Following a question from a Member, the Clerk confirmed that the Fire & Rescue Authority had indemnity for Officers, but this did not cover the specific issues that had occurred in relation to the retirement of the former Chief Fire Officer.

In response to a question by a Member, the District Auditor stated that there had not been sufficient recognition of the complexity of the issues involved to provide adequate internal scrutiny.

The Chairman proposed an additional recommendation that the relevant Service Level Agreements with constituent Councils should be brought back to the Committee for consideration.

**RESOLVED that:**

- i) the report from the District Auditor be noted;***
- ii) the recommendations made by the District Auditor and the subsequent response of the current Chief Fire Officer and Chairman of the Authority be noted;***
- iii) the Committee monitors the progress of the actions as set out in the District Auditor's report; and***
- iv) the Committee considers the relevant Service Level Agreements with the constituent Councils at its meeting on 9 May.***

**6. Supplementary Annual Governance Report 2009/10**

The District Auditor explained that he was unable to previously issue a Value for Money conclusion until he had considered matters brought to his attention during the course of the audit in relation to the early retirement of the outgoing Chief Fire Officer.

The District Auditor informed the Committee that there was no material impact on his original opinion on the financial statements, however he was unable to give an unqualified value for money conclusion due to his findings in respect of the previous governance arrangements.

The District Auditor stated that he recognised that under the leadership of the new Chief Fire Officer, the Authority had already made improvements to its governance arrangements.

**RESOLVED that**

- i) the External Audit Supplementary Annual Governance Report 2009/10 be noted; and***
- ii) the letter of representation be approved on behalf of the Authority.***

**7. Supplementary Annual Governance Report 2010/11**

The District Auditor informed the Committee that due to the improvements made to the Authority's governance arrangements in 2010/11, he was satisfied that there were no issues that would have a material impact on the financial statements or

the previous value for money conclusion.

**RESOLVED that:**

- i) the External Audit Supplementary Annual Governance Report 2010/11 be noted; and***
- ii) the letter of representation be approved on behalf of the Authority.***

The Committee Chairman stated that although she was disappointed with the 2009/10 value for money conclusion, she was satisfied that the Authority's governance arrangements had been improved.

Members thanked the Clerk for the information and explanations that had been provided to them regarding the settlement of the outstanding claim.

The meeting concluded at 2.28pm

Signed: \_\_\_\_\_

Chairman

Date: \_\_\_\_\_

DRAFT

## **5. Annual Audit Letter 2010/11**

### **Purpose of report**

1. To present the Annual Audit Letter 2010/11 from the Audit Commission.
- 

### **Recommendation**

***The Treasurer recommends that the Committee notes the Annual Audit Letter 2010/11 from the Audit Commission.***

### **Background**

2. The Audit Commission is a public corporation set up in 1983 to protect the public purse. The Commission appoints auditors to Councils, NHS bodies (excluding NHS Foundation Trusts), police authorities and other local public services in England and oversees their work. The Auditors that are appointed are either Audit Commission employees or one of the private audit firms. The Audit Commission also helps public bodies to manage the financial changes they face by providing authoritative, unbiased, evidence-based analysis and advice.
3. The Annual Audit Letter summarises the findings from the 2010/11 audit.
4. The Audit comprises two elements:
  - The audit of the Authority's financial statements; and
  - An assessment of the Authority's arrangements to achieve value for money in its use of resources.

### **Overview**

5. The key findings in the Commission's Audit 2010/11 are as follows:
  - (a) The Authority has continued to focus on delivering good value services in line with its plans and priorities. Highly developed performance management enables it to monitor and challenge performance.
  - (b) Unprecedented Government funding cuts will mean that the Authority, Councils and other public services will need to work both harder and smarter. The Authority has already been proactive in recognising the need for change.

- (c) Reductions in funding have been recognised and in light of this the Authority has recognised that it will be required to make difficult decisions to reduce costs and maintain its financial standing position.
  - (d) Whilst there has been a necessary focus upon savings the Authority has looked to continue to support projects that will help improve the Service.
  - (e) The Authority has 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.
  - (f) 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.
6. Current and future challenges include the following:
- The reduction of 25% in overall Fire and Rescue Authorities grant announced in December 2010 mean that savings plans on existing arrangements alone are unlikely to be sufficient to meet this challenge.
  - The Authority's four year Medium Term Financial Plan has identified a shortfall of £2.5 million by 2014/15 based on a suite of assumptions.
  - The impact of pressures on public sector finances will continue to present the Authority with significant challenges.

### **Conclusion/Summary**

- 7. An unqualified opinion on the Authority's 2010/11 accounts was issued on 29 September 2011.
- 8. With regard to Value for Money, the Auditor considered that the Authority is managing and using its money, time and people to deliver value for money.
- 9. The Authority's arrangements to secure economy, efficiency and effectiveness in the use of resources were assessed against two criteria as follows:

**Financial Resilience** – the organisation has proper arrangements in place to secure financial resilience.

**Securing economy, efficiency and effectiveness** – the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

# 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

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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.

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## 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><i>Financial governance</i></p> <p>There is capacity at senior level to provide strong leadership to the Authority.</p> <p>The authority 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 Authority Plan and Integrated Risk Management Plan.</p> <p><i>Financial planning</i></p> <p>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.</p>

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**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.

*Financial control*

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.

*Prioritising resources*

The senior team provide clear leadership on spending priorities and demonstrate a clear understanding of the resource requirements of the service.

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.

Performance management is strong and appropriately challenged by the Policy and Resources Committee.

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.

*Improving efficiency and productivity*

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.

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.

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.

# 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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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.



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## **6. Audit Plan 2011/2012**

### **Purpose of report**

1. To consider the Audit Plan from the Audit Commission that sets out the work for the 2011/12 audit.
- 

### **Recommendation**

***The Treasurer recommends that the Audit Commission's Audit Plan attached at Appendix 1 be noted.***

### **Introduction and Background**

2. The Audit Commission is required to inform the Authority of the work they will undertake during an annual audit and this is submitted in the form of an Audit Plan.
3. The Audit Plan is based on the Audit Commission's risk-based approach to audit planning.
4. The Audit Commission comply with the statutory requirements that govern their work in particular:
  - The Audit Commission Act 1998; and
  - The Code of Audit Practice for local government bodies.

### **Key Milestones and Deadlines**

5. The Authority is required to prepare the accounting statements by 30 June 2012.
6. The Authority's Auditor aims to complete the work and issue the opinion and value for money conclusion by 30 September 2012.
7. The proposed timetable and planned outputs are as follows:

Activity	Date	Output
Opinion: controls and early substantive testing	February – March 2012	
Opinion: receipt of accounts and supporting working papers	Accounts – 30 June 2012 Supporting working papers – 30 July 2012	
Opinion: substantive testing	August – September 2012	
Value for money conclusion: review	June – September 2012	
Present Annual Governance Report at the Audit Committee	29 September 2012	Annual Governance Report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

### Conclusion/Summary

8. The Audit Plan sets out the work that will be undertaken during the 2011/2012 audit. The Plan is based on the Audit Commission's risk-based approach to audit planning. However, the audit does not relieve the management or the Audit Committee, as those charged with governance of their responsibilities.

### Financial Considerations

Consideration	Yes/No	Reference in Report i.e. paragraph no.
There are financial issues that require consideration	Yes	Appendix 1, pages 13 - 14

## Legal Considerations

Consideration	Yes/No	Reference in Report i.e. paragraph no.
There are legal issues e.g. contractual and procurement, reputational issues that require consideration	No	

## Additional Considerations

9. The table below sets out any additional issues arising from the proposals contained in this report and identifies the relevant paragraphs in the report where such issues are addressed.

Consideration	Yes/No	Reference in Report i.e. paragraph no.
<b>Resources</b> (e.g. Assets, ICT, Human Resources, Training & Development, Sustainability).	No	
<b>Strategic Policy Links</b> (e.g. IRMP, Authority Plan, Equality & Diversity, Partnerships, Environmental Impact).	No	
<b>Risk Management / Health &amp; Safety</b> (e.g. risk management and control measures, risk register score).	Yes	Whole report
<b>Consultation with Representative Bodies</b>	No	

## Supporting Information

Appendix 1 –Audit Plan

Background papers – none

## Contact Officer

Tony Wood, Treasurer

0845 12 24454

Email: [twood@hwfire.org.uk](mailto:twood@hwfire.org.uk)

# Audit plan

Hereford and Worcester Fire and Rescue Authority

Audit 2011/12



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# Introduction

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**This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.**

## **Responsibilities**

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

# Accounting statements and Whole of Government Accounts

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**I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.**

## **Materiality**

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

## **Identifying audit risks**

I need to understand the Authority to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Authority, including assessing your own risk management arrangements;
- considering the financial performance of the Authority;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Authority's information systems.

## **Identification of significant risk**

I have considered the additional risk that is relevant to the audit of the accounting statements and have set this out in table 1.

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Table 1: **Significant risk**

<b>Risk area</b>	<b>Audit response</b>
<p><b>Quality Assurance</b></p> <p>In 2010/11 I identified that weak quality assurance arrangements in the preparation of the accounting statements could lead to a material misstatement and to a less effective and efficient audit.</p>	<p>Review of controls and arrangements for the production of your accounting statements.</p> <p>A working paper requirement schedule will be provided to the finance team.</p> <p>Progress will be monitored against the accounting closedown timetable.</p>

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## Testing strategy

My audit involves:

- testing of the operation of controls;
- review and re-performance of the work of your internal auditors on which I intend to place reliance;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows.

Table 2: Proposed work

	Review of internal audit	Controls testing	Reliance on the work of other auditors	Reliance on work of experts	Substantive testing
Interim visit	Review IA approved plan of work	General Ledger Payroll Pensions Payable Reliance on brought forward controls assurance on Creditors and Pensions contributions			Non-current assets – ownership.
Final visit		Update and completion of controls testing	IT control environment of the payroll and pension systems administered by Worcestershire County Council provided under a service level agreement to the Authority. Pensions assets and liabilities – auditor to Local Government Pensions Scheme administered by Worcestershire County Council.	Pensions liabilities and assets – Mercers, GAD and our own consulting actuary. Valuation of property, plant and equipment – Valuer provided by Worcestershire County Council.	All material accounts balances and amounts. Year-end feeder system reconciliations.

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

## Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

# Value for money

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## I am required to reach a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Authority's arrangements is based on two criteria, specified by the Commission. These relate to the Authority's arrangements for:

- securing financial resilience – focusing on whether the Authority is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Authority is prioritising its resources within tighter budgets and improving productivity and efficiency.

### Identification of significant risks

I have considered the risks that are relevant to my value for money conclusion. I have identified the following significant risks that I will address through my work.

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Table 3: **Significant risks**

Risk area	Audit response	Audit output
Securing Financial Resilience Financial Planning	Review the medium term financial plans and the 2012/13 budgets to ensure that the Authority has taken appropriate account of the current economic climate and the plans are supported by detailed and robust assumptions. Review your reporting on progress against these plans.	Annual governance report

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Risk area	Audit response	Audit output
Securing economy, efficiency and effectiveness	Review of:	Annual governance report
Improving efficiency and productivity	<ul style="list-style-type: none"> <li>■ the authority's approach to evaluating options for making efficiencies;</li> <li>■ what information the authority has access to on costs and performance and how it uses it to evaluate options and plans;</li> <li>■ the benchmarking the authority has undertaken to compare its costs and productivity for key services and the actions arising from this;</li> <li>■ how the authority is seeking and evaluating new ways of delivering services and improving efficiency;</li> <li>■ the arrangements in place to monitor achievement of efficiencies and the impact the efficiencies have on services and performance; and</li> <li>■ the setting and monitoring of the authority's targets.</li> </ul> <p>Consider the supporting VFM tools and review guides made available by the Audit Commission.</p>	

I will plan a programme of VFM audit work based on my risk assessment.

# Key milestones and deadlines

The Authority is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 4: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	February – March 2012	
Opinion: receipt of accounts and supporting working papers	Accounts – 30 June 2012 Supporting working papers – 30 July 2012	
Opinion: substantive testing	August – September 2012	
Value for money conclusion: review	June – September 2012	
Present Annual Governance Report at the Audit Committee	29 September 2012	Annual Governance Report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

# The audit team

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The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **Audit team**

Name	Contact details	Responsibilities
Grant Patterson District Auditor	<a href="mailto:g-patterson@audit-commission.gov.uk">g-patterson@audit-commission.gov.uk</a> 0844 798 7816	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Joan Hill Audit Manager	<a href="mailto:j-hill@audit-commission.gov.uk">j-hill@audit-commission.gov.uk</a> 0844 798 7568	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Stephen Ball Team Leader	<a href="mailto:s-ball@audit-commission.gov.uk">s-ball@audit-commission.gov.uk</a> 0844 798 7566	Key point of contact for the finance team.

# Independence and quality

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## Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

## Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ ([c-westwood@audit-commission.gov.uk](mailto:c-westwood@audit-commission.gov.uk)) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

# Fees

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**The fee for the audit is £73,048, as set out in my letter of 7 April 2011.**

## **The audit fee**

The Audit Commission has set a scale audit fee of £73,048 which represents a 15.4 per cent reduction on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

## **Assumptions**

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Treasurer and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

## Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. As in previous years, I will work with your finance team to identify any specific actions that the Authority could take and to provide ongoing audit support.

## Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 6: **Fees**

	2011/12 proposed £	2010/11 actual £	Variance £
Audit	73,048	86,400	13,352
Non-audit work	0	0	0
<b>Total</b>	<b>£73,048</b>	<b>£86,400</b>	<b>£13,352</b>

# Appendix 1 – Independence and objectivity

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Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 7: **Independence and objectivity**

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.</p>	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

*Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards*

# Appendix 2 – Basis for fee

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In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11 other than for those areas listed in page 4.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes appropriate work on specified material systems that provide material figures in the accounts sufficient that I can place reliance on it for the purposes of my audit.
- The Authority provides:
  - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 July 2012;
  - other information requested within agreed timescales; and
  - prompt responses to draft reports.
- There are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

# Appendix 3 – Glossary

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## **Accounting statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

## **Annual Audit Letter**

Report issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

## **Auditor(s)**

Auditors appointed by the Audit Commission.

## **Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

## **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

## **Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

## **Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

## **Significance**

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

## **Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

## **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

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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.



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

December 2011

## 7. Audit Committee Update

### Purpose of report

1. To provide the Committee with a report from the Audit Commission on their progress in delivering their responsibilities as the Authority's external auditors.
- 

### Recommendations

#### *The Treasurer recommends that:*

- i) The Audit Commission's Audit Committee update attached at Appendix 1 be noted; and*
- ii) Consideration be given to the questions posed by the External Auditor in paragraph 43 of Appendix 1 of this report.*

### Introduction and Background

2. This report seeks to highlight key emerging national issues and developments which may be of interest to Members of the Audit Committee. These include:
  - Financial Statements
  - Value for Money Conclusion
  - Final Accounts Workshops
  - Localism Act 2011
  - Capital Grant Consultation
  - Dealing with Economic Downturn
  - Information on Police Reform and Social Responsibility Act 2011
  - Update on the externalisation of the Audit Practice

### Conclusion/Summary

3. By considering the questions posed by the Audit Commission in paragraph 43, it should ensure that the Committee receives sufficient assurance on emerging issues.

### Financial Considerations

Consideration	Yes/No	Reference in Report i.e. paragraph no.
There are financial issues that require consideration	No	

## Legal Considerations

Consideration	Yes/No	Reference in Report i.e. paragraph no.
There are legal issues e.g. contractual and procurement, reputational issues that require consideration	No	

## Additional Considerations

4. The table below sets out any additional issues arising from the proposals contained in this report and identifies the relevant paragraphs in the report where such issues are addressed.

Consideration	Yes/No	Reference in Report i.e. paragraph no.
<b>Resources</b> (e.g. Assets, ICT, Human Resources, Training & Development, Sustainability).	No	
<b>Strategic Policy Links</b> (e.g. IRMP, Authority Plan, Equality & Diversity, Partnerships, Environmental Impact).	No	
<b>Risk Management / Health &amp; Safety</b> (e.g. risk management and control measures, risk register score).	No	
<b>Consultation with Representative Bodies</b>	No	

## Supporting Information

Appendix 1 – Audit Committee Update Hereford & Worcester Fire and Rescue Authority Audit 2011/12, December 2011

Background papers – none

## Contact Officer

Tony Wood, Treasurer  
0845 12 24454  
Email: [twood@hwfire.org.uk](mailto:twood@hwfire.org.uk)

# **Audit**

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# **Committee**

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# **update**

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**Hereford and Worcester Fire and Rescue Authority**

**Audit 2011/12**

**December 2011**

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

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# Introduction

- 1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.
- 3 If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.
- 4 Finally, please also remember to visit our website ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Grant Patterson  
District Auditor

12 December 2011

# Progress report

## Financial statements

**5** The planning of the audit work for the 2011/12 year is in progress and system documentation and testing will commence in January 2012. Once the Internal Audit plan of work for 2011/12 is available it will be reviewed to ensure maximum reliance can be placed upon their work.

## VFM conclusion

**6** The Audit Commission has specified that the statutory VFM conclusion will be based on two reporting criteria.

- The organisation has proper arrangements in place for securing financial resilience.
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

**7** The criteria remain unchanged from last year.

**8** The focus of the criteria remain.

- The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

**9** The VFM guidance issued to auditors is available on our website at <http://www.audit-commission.gov.uk/audit-regime/codes-of-audit-practice/Pages/valueformoneyconclusion.aspx>.

**10** We are currently planning the work required to meet the requirements of these new criteria and will work closely with the Treasurer and the Director of Finance & Assets in the coming months.

# Other matters of interest

## 2011/12 Final Accounts Workshops

**11** We have invited your staff to a workshop that will help them to prepare your financial statements for 2011/12.

**12** Events for the authority are to be held on either the 22 February 2012 or the 1 March 2012. Please contact Grant Patterson, your District Auditor or Joan Hill, your Audit Manager if you have not received an invite to these workshops or if you would like to discuss the events in more detail.

## Localism Act 2011

**13** On 15 November 2011 the Localism Bill received Royal Assent. The Department for Communities and Local Government (DCLG) has published an updated plain English guide to the Localism Act to reflect the final legislation and this may be of interest to members of the Audit Committee.

**14** Subject to commencement, key measures of the Act that impact upon fire and rescue authorities include:

- introducing a new general power of competence, giving councils freedom to work together to improve services and drive down costs. Councils are now free to do anything - provided they do not break other laws. This gives councils the legal capacity to do anything that an individual can do that is not specifically prohibited and is designed to allow them to act innovatively without acting 'ultra vires';
- the act also provides stand alone fire and rescue authorities with a similar power to the general power of competence but related to their single-purpose status. With this power single purpose fire and rescue authorities will be able to anything they consider appropriate for purposes linked to their statutory responsibilities to help deliver innovative and more personalised services to their communities;
- giving communities the right to approve or veto - by way of a referendum - Council Tax increases higher than a limit determined by the Government;
- abolishing the Standards Board;
- clarifying the rules on predetermination in order to free up councillors to express their opinions on issues of local importance without the fear of legal challenge;
- enabling councils to return to the committee system of governance, if they wish, regardless of their size; and
- promoting openness regarding the pay of senior officers.

**15** There are also specific changes to charges that fire and rescue authorities can make. The Act removes the existing charging (up to full cost recovery of expenditure) arrangements for all fire and rescue authorities. The decision making process on charging for additional activities will be subject to a local consultation, with certain safeguards where charging is not permissible. Whilst the Act repeals section 19 (charging) of the Fire and Rescue Service Act 2004, fire and rescue authorities will continue to be able to charge for activities they can currently charge for, without the need to re-consult.

**16** A new provision of the Act provides fire and rescue authorities with the ability to charge for mobilisation to non-domestic premises where there is a persistent false report of fire due to either 'malfunctioning' or 'misinstalled' equipment. This is one option available to fire and rescue authorities to address the issue of persistent false reports. Another is the use of enforcement through the Regulatory Reform (Fire Safety) Order 2005 or both where deemed appropriate.

**17** Fire and rescue authorities will not be able to charge for a number of core functions e.g. extinguishing fires or protecting life and property in the event of fire (except at or under the sea), providing emergency medical assistance, or responding to emergencies resulting from events of widespread significance, severe weather, or road traffic accidents.

**18** Many of the measures in the Localism Act are expected to be in place by April 2012.

## Capital grant consultation

**19** Capital grant funding is currently distributed by allocation of a fixed sum to every authority with the balance distributed pro rata according to population. The Department sought views on the proposal that future funding be distributed based on a combination of:

- an efficiency fund, administered via a bidding process; and
- a pro rata distribution using the current distribution method.

**20** Ministers have now considered the views of the sector and have decided to give fire and rescue authorities more time to prepare bids for capital grant funding that can target efficiency savings while demonstrating value for money. As such the current pro rata distribution method will remain in place for 2012/13. However, subsequent to this, the allocation of capital will be a combination of pro rata distribution and bids with a one off bidding round for 2013 - 2015 funds.

## Dealing with the economic downturn

**21** On 17 November 2011 the Audit Commission published 'Tough Times - Councils' responses to a challenging financial climate'. A copy of the report is available on our website at [www.audit-commission.gov.uk/nationalstudies/localgov/Pages/toughtimes.aspx](http://www.audit-commission.gov.uk/nationalstudies/localgov/Pages/toughtimes.aspx).

**22** The report draws heavily on the expertise of the external auditors of each authority and also includes new analysis of authorities' budget data.

**23** Whilst the key findings in the report are directed at councils there may also be messages that read across into the fire sector.

- Most councils are managing well in the face of unprecedented reductions to their income, but services have been affected and a small number of councils may struggle to balance their books.
- Although councils face a real terms loss of total income of £4.7 billion (7.5 per cent) in 2011/12, auditors felt nine out of ten councils are well prepared for this and are on track to deliver their budgets.
- To meet the future challenge of cuts in government funding, some elements of councils' cost-reducing strategies will have to change and many councils will face difficult decisions about how to meet their funding shortfall in the next few years.
- Councils are not planning to make significant withdrawals from their reserves this year - some even plan to increase them.

**24** The report recommends that authorities use the Audit Commission's Value for Money profiles to see how their authority compares to the national picture set out in this report, identify authorities facing similar challenges, and learn from others' approaches. The link to the Value for Money profile is available at our website at <http://vfm.audit-commission.gov.uk/RenderReport.aspx?Gkey=282VqlaaVSL7TN8PtQ7X/87b5aS0svj73y5da%2biAG7D/x52gZ1t7Eg%3d%3d>.

## Procurement Fraud in the Public Sector

**25** The National Fraud Agency has recently issued a report on public sector procurement fraud which examines new approaches to reduce fraud risk and make processes both quicker and simpler.

**26** The report acknowledges that procurement fraud is a complex problem. It covers a wide range of illegal activities from bid rigging during the pre-contract award phase through to false invoicing in the post-contract award phase. It can be perpetrated by those inside and outside an organisation.

**27** The report includes a number of case studies and details a number of actions that can be taken both immediately and in the medium term.

## Protecting the Public Purse 2011

**28** In November 2011 the Audit Commission published 'Protecting the Public Purse 2011 - Fighting Fraud against Local Government.'

**29** This report is based on the Audit Commission's annual fraud survey - which is still the sole source of evidence about the levels of detected fraud in Local Government and related bodies.

**30** The report reveals that England's councils and related bodies have succeeded in detecting £185 million worth of fraud, an improvement of 37 per cent on last year's figure of £135 million. This is equivalent to a year's funding for around 700 libraries or the wages of up to 11,000 care workers.

**31** The key areas where fraud was detected are:

- housing benefits and council tax benefits fraud, which accounted for more than half of the total fraud losses detected by councils;
- false claims for student and single person council tax discounts - £22 million; and
- procurement fraud, with 145 cases amounting to £14.6 million.

**32** The report concludes with a checklist that organisations may find it helpful to self-assess against. Covering a wide range of issues from procurement to recruitment, it will help provide Audit Committees with assurance over the arrangements in place.

**33** In addition to the core report, there are separate briefings to specifically aid governors in schools and councillors in parish and town councils.

## **For information: Police Reform and Social Responsibility Act 2011**

**34** The Police Reform and Social Responsibility Act received Royal Assent on 15 September 2011.

**35** This Act will abolish police authorities in England and Wales and replace them with directly elected police and crime commissioners.

**36** The Act requires the police and crime commissioner for a policing area to hold the chief constable to account, while also safeguarding the chief constable's operational independence. A police and crime panel, established by the local authorities in a police area, will provide independent scrutiny of the police and crime commissioner.

**37** The first elections of police and crime commissioners will take place on 15 November 2012 and police authorities will be abolished within a week of these elections. All staff and assets will transfer in the first instance to the office of the police and crime commissioner.

# Update on the externalisation of the Audit Practice

**38** The Audit Commission's Chief Executive, Eugene Sullivan, wrote to clients on 21 September 2011 summarising the Department for Communities and Local Government's plans for externalising the Audit Commission's work that is currently undertaken by the Audit Practice.

**39** The key points are as follows.

- Contracts will be let from 2012/13 on a three- or five-year basis. The earliest you will be able to appoint your own auditors is therefore for the 2015/16 audit.
- The work is split into four regions, comprising ten 'lots'. Each lot will be awarded separately, but any individual bidder can only win a maximum of one lot in each region (ie four lots in total).
- The Commission is managing a fair and equitable procurement process to allow suitable private-sector providers the opportunity to bid.
- Bids are due in by mid-December 2011, with the contract awards planned for mid-February 2012, with formal Commission approval planned for late July 2012 following consultation.
- Appointments will start on 1 September 2012. As such, the Commission will extend the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. The costs of this 'interim' audit role will be met by the Commission.
- Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

**40** A further update was provided in Eugene Sullivan's letter to clients of 10 November 2011. Thirteen potential providers have now been invited to tender following the initial pre-qualification stage.

**41** Further details are available on the Audit Commission's website. We will continue to keep you updated on developments.

**42** Against this background, the Audit Practice's focus remains.

- Fulfilling our remaining responsibilities – completing our work for 2010/11 and delivering your 2011/12 audit - to the high standards you expect and deserve.
- Managing a smooth transition from the Audit Practice to your new audit provider.

# Key considerations

**43** The Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Has the Authority considered the Tough Times report and made appropriate use of the Audit Commission's VFM profiles?
- Has the Authority completed the fraud prevention checklist and, where appropriate, developed an action plan to address any weaknesses?

## Contact details

**44** If you would like further information on any items in this briefing, please feel free to contact either your District Auditor or Audit Manager.

**45** Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

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District Auditor

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- any third party.



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December 2011

## **9. Internal Audit Update**

### **Purpose of report**

1. To provide an update on Internal Audit activities since the Audit Committee meeting on 28 September 2011.
- 

### **Recommendation:**

***The Treasurer recommends that the report be noted.***

### **Background**

2. The Authority is responsible for maintaining or procuring an adequate and effective internal audit of the activities of the Authority under the Accounts and Audit (England) Regulations 2011. This includes considering, where appropriate, the need for controls to prevent and detect fraudulent activity. These should be reviewed to also ensure that they are effective. This duty has been delegated to the Treasurer, and Internal Audit was provided during the 2010/11 year by the Worcestershire County Council Internal Audit Team.
3. As reported to the Audit Committee meeting of 21 April 2011, Worcestershire County Council ceased the provision of internal audit services to the Hereford and Worcester Fire and Rescue Authority as at the end of 2010/11. A meeting took place on 12 September 2011 to finalise the arrangements for transferring responsibility for the provision of the service to the Worcester City Council hosted Internal Audit Service effective for the delivery of the 2011/12 internal audit programme. It was agreed that Worcestershire County Council would manage out the assignments discussed at paragraphs 5 – 7 of this report, however, the work scope has been extended to ensure coverage applies to 2011/12 where appropriate, and that the Worcester City Council hosted team would take over responsibility for the provision of the service for the second half of 2011/12.

### **Clearance of Audit Reports**

4. At its meeting on the 29 June 2011 the Committee received and noted the amended Internal Audit Plan for 2010/11. Due to a serious long-term illness within the section, and difficulties in meeting key staff, a small number of audits are still in the process of being finalised and completed. Progress is as detailed below.
5. Responses have been received to the Business Continuity and VAT audits and final reports have been issued.

6. A draft report has been issued in respect of the Payroll and Pensions audit; management comments have been received and are currently under review.
7. The following audits are currently in progress:
  - Procurement/Revenue Contracts;
  - Capital Expenditure; and
  - Budgets and Budgetary Control.
8. The anticipated completion dates for these audits is the end of January 2012 and confirmation of this will be presented to the Audit Committee at its meeting on 09 May 2012.

### **Additional Work**

9. The work on a 2011/12 Capital Grant Claim has been completed and the claim form signed by the Chief Internal Auditor.

### **Financial Considerations**

Consideration	Yes/No	Reference in Report i.e paragraph no.
There are financial issues that require consideration	No	

### **Legal Considerations**

Consideration	Yes/No	Reference in Report i.e paragraph no.
There are legal issues e.g. contractual and procurement, reputational issues that require consideration	No	

### **Additional Considerations**

10. The table below sets out any additional issues arising from the proposals contained in this report and identifies the relevant paragraphs in the report where such issues are addressed.

Consideration	Yes/No	Reference in Report i.e paragraph no.
<b>Resources</b> (e.g. Assets, ICT, Human Resources, Training & Development, Sustainability).	No	
<b>Strategic Policy Links</b> (e.g. IRMP, Authority Plan, Equality & Diversity, Partnerships, Environmental Impact).	No	
<b>Risk Management/Health &amp; Safety</b> (e.g. risk management and control measures, risk register score).	Yes	The whole report
Consultation with Representative Bodies	No	

### Supporting Information

None

### Contact Officer

Jackie Sparkes, Principal Auditor, Worcestershire County Council  
(01905 766572)  
Email: [jsparkes@worcestershire.gov.uk](mailto:jsparkes@worcestershire.gov.uk)

## **10. Internal Audit Programme 2011/12**

### **Purpose of report**

1. To present the Internal Audit Programme provided by the Worcestershire Internal Audit Service for 2011/12 for approval.
- 

### **Recommendation**

***The Treasurer recommends that the report be noted.***

### **Introduction and Background**

2. The Authority is responsible for maintaining or procuring an adequate and effective internal audit of the activities of the Authority under the Accounts and Audit (England) Regulations 2011. This includes considering, where appropriate, the need for and the effectiveness of anti fraud controls. This duty has been delegated to the Treasurer, and Internal Audit has been provided during the 2010/11 year by the Internal Audit Section of Worcestershire County Council. During 2011/12 the provision of the internal audit service has, subject to contract, changed from Worcestershire County Council to the Worcester City Council hosted Worcestershire Internal Audit Shared Service (WIASS). Due to the lengthy handover and contract considerations there has not been an agreed audit plan placed before the Committee for consideration. As the financial year is now in the fourth quarter it is considered that a plan is proposed to assist in the delivery of audit over the remaining months.

### **Objectives of Internal Audit**

3. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom defines internal audit as: "an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic and effective use of resources." Worcestershire Internal Audit Shared Service is committed to the requirements of the CIPFA Code of Practice for Internal Audit.

## **Aims of the Internal Audit**

4. The objectives of the Worcestershire Internal Audit Shared Service are to:
  - examine, evaluate and report on the adequacy and effectiveness of internal control and risk management across the Fire Service and recommend arrangements to address weaknesses as appropriate;
  - examine, evaluate and report on arrangements to ensure compliance with legislation and the Fire Service's objectives, policies and procedures;
  - examine, evaluate and report on procedures to check that the Fire Service's assets and interests are adequately protected and effectively managed;
  - undertake independent investigations into allegations of fraud and irregularity in accordance with Fire Service's policies and procedures and relevant legislation; and
  - advise upon the control and risk implications of new systems or other organisational changes.
5. Internal Audit is working with External Audit to avoid duplication of effort, provide adequate coverage during the 2011/12 financial year so an internal audit opinion can be reached and support External Audit by carrying out reviews in support of the accounts opinion work.

## **Audit Planning**

6. To achieve delivery of the Internal Audit service there are appropriate arrangements for:
  - Determining and planning the work to be carried out. This is achieved by applying a risk assessment methodology to all identified auditable areas.
  - Providing the necessary resources, skills and support facilities.
  - The planning process with regard to the organisation's risk management arrangements which indicates the priority level for each auditable activity.
  - This enables audit resources to be focussed on the areas of greatest identified risk.

## **Audit Work to be carried out in 2011/12**

7. Due to the transition of audit provision from Worcestershire County Council to the Worcestershire Internal Audit Shared Service WIASS will provide a reduced provision for the 2011/12 year based upon a budget of 50 operational days plus 12 management days. This gives a total audit provision by the Worcestershire Internal Audit Shared Service of 62 days. This remainder of the internal audit provision for 2011/12 has been provided by Worcestershire County Council.

8. The plan provision for Worcestershire Internal Audit Shared Service has been discussed with the Treasurer as well as External Audit. Emphasis has been placed on the core financial systems for the 2011/12 by Worcestershire Internal Audit Shared Service as indicated in Appendix 1. The normal audit provision for the Fire Service is circa 111 days and a full audit provision is planned to be delivered by Worcestershire Internal Audit Shared Service from 2012/13 onwards.
  
9. The Internal Audit programme, which details the proposed provision for 2011/12, is shown at Appendix 1.

### Financial Considerations

Consideration	Yes/No	Reference in Report i.e paragraph no.
There are financial issues that require consideration	Yes	There are financial issues that require consideration and these remain under negotiation as part of the overall contract but are not reported in detail in this report. Reference has been made in respect of this at paragraph 2.

### Legal Considerations

Consideration	Yes/No	Reference in Report i.e paragraph no.
There are legal issues e.g. contractual and procurement, reputational issues that require consideration	Yes	There are legal issues e.g. contractual and procurement, reputational issues that require consideration but are not fully detailed in this report as they are contained within the contract. Reference has been made in respect of this at paragraph 2.

## Additional Considerations

The table below sets out any additional issues arising from the proposals contained in this report and identifies the relevant paragraphs in the report where such issues are addressed.

Consideration	Yes/No	Reference in Report i.e paragraph no.
<b>Resources</b> (e.g. Assets, ICT, Human Resources, Training & Development, Sustainability).	No	
<b>Strategic Policy Links</b> (e.g. IRMP, Authority Plan, Equality & Diversity, Partnerships, Environmental Impact).	No	
<b>Risk Management / Health &amp; Safety</b> (e.g. risk management and control measures, risk register score).	Yes	Whole Report
<b>Consultation with Representative Bodies</b>	No	

## Supporting Information

Appendix 1 – Proposed Internal Audit Plan for 2011/12

### Contact Officer

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**Worcestershire Internal Audit Shared Service**  
**Proposed Audit Programme for 2011/12**

**Appendix 1**

<b>Description</b>	<b>Proposed Budgeted Days for 2011/12</b>
<b>Operational</b>	
Annual Governance Statement	1
Payroll & Pensions (including GAD data)	15
Creditors	12
Debtors	8
Budgets & Budgetary Control	10
Segregation of Duties follow up	4
	<b>50</b>
<b>Management</b>	
Advice & Guidance	1
Audit Committee/Management Reporting/Meetings	11
	<b>12</b>
<b>Total</b>	<b>62</b>

## Hereford & Worcester Fire and Rescue Authority

### GLOSSARY OF TERMS

<b>ACAS</b>	Advisory Conciliation and Arbitration Service
<b>ACFO</b>	Assistant Chief Fire Officer
<b>AFA</b>	Automatic Fire Alarm
<b>AFD</b>	Automatic Fire Detection
<b>ALP</b>	Aerial Ladder Platform
<b>AM</b>	Area Manager
<b>AMP</b>	Asset Management Plan
<b>ARCC</b>	Aeronautical Rescue Co-ordination Centre
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<b>BA</b>	Breathing Apparatus
<b>BACS</b>	Bankers' Automated Clearance System
<b>BCM</b>	Business Continuity Management
<b>BCP</b>	Business Continuity Plan
<b>BME</b>	Black and Minority Ethnic
<b>BVPI</b>	Best Value Performance Indicator
<b>BVPP</b>	Best Value Performance Plan
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<b>CAA</b>	Combined Area Assessment
<b>CAFS</b>	Compressed Air Foam Systems
<b>CARP</b>	Combined Aerial Rescue Pump
<b>CBRN</b>	Chemical Biological Radiological Nuclear
<b>CCA</b>	Civil Contingencies Act
<b>CDRP</b>	Crime and Disorder Reduction Partnership
<b>CERMIG</b>	County Emergency Response to Major Incidents Group
<b>CFA</b>	Combined Fire Authority
<b>CFO</b>	Chief Fire Officer
<b>CFOA</b>	Chief Fire Officers Association
<b>CFRMIS</b>	Community Fire Risk Management System
<b>CFS</b>	Community Fire Safety
<b>CIMAH</b>	Control of Industrial Major Accident Hazards
<b>CIPFA</b>	The Chartered Institute of Public Finance and Accountancy
<b>CLG</b>	Department for Communities and Local Government
<b>CM</b>	Crew Manager
<b>COSHH</b>	Control of Substances Hazardous to Health
<b>CPA</b>	Comprehensive Performance Assessment
<b>CPS</b>	Chemical Protection Suits
<b>CRE</b>	Commission for Racial Equality
<b>CRR</b>	Community Risk Register
<b>CS</b>	Community Safety
<b>CSR</b>	Current Spending Review
<b>CSU</b>	Command Support Unit
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<b>DC</b>	District Commander
<b>DCFO</b>	Deputy Chief Fire Officer
<b>DDA</b>	Disability Discrimination Act
<b>DIM</b>	Detection, Identification and Monitoring
<b>DOF</b>	Director of Finance
<b>DoH</b>	Department of Health
<b>DoT</b>	Direction of Travel
<b>DPA</b>	Data Protection Act

## Hereford & Worcester Fire and Rescue Authority

### GLOSSARY OF TERMS

<b>EA</b>	Environment Agency
<b>EAS</b>	Electronic Availability System
<b>ECS</b>	Enhanced Command Support
<b>EIR</b>	Environmental Information Regulations
<b>EPU</b>	Environmental Protection Unit
<b>ESLG</b>	Equality Standard for Local Government
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<b>FBU</b>	Fire Brigades Union
<b>FDR</b>	Fire Damage Report
<b>FDS</b>	Flexible Duty System
<b>FireLink</b>	The National Project for the introduction of a National Fire Service Radio System
<b>FOIA</b>	Freedom of Information Act
<b>FRA</b>	Fire and Rescue Authority
<b>FRD</b>	Fire Resilience Directorate
<b>FRS</b>	Fire and Rescue Service
<b>FRSNCC</b>	Fire and Rescue Service National Co-ordination Centre
<b>FSC</b>	Fire Service College
<b>FSCA</b>	Fire Service Consultation Association
<b>FSEC</b>	Fire Services Emergency Cover
<b>FSNBF</b>	Fire Service National Benevolent Fund
<b>FSPA</b>	Fire Service Procurement Association
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<b>GM</b>	Group Manager
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<b>HAZMAT</b>	Hazardous Materials
<b>HERMIT</b>	Herefordshire Emergency Response to Major Incidents Team
<b>HFSC</b>	Home Fire Safety Check
<b>HMFSI</b>	Her Majesty's Fire Service Inspectorate
<b>HMI</b>	Her Majesty's Inspector or Inspectorate
<b>HPA</b>	Health Protection Agency
<b>HR</b>	Human Resources
<b>HRIS</b>	Human Resources Information System
<b>HSE</b>	Health & Safety Executive
<b>HWFRS</b>	Hereford & Worcester Fire and Rescue Service
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<b>ICP</b>	Integrated Clothing Project
<b>ICS</b>	Incident Command System
<b>ICT</b>	Information and Communications Technology
<b>IEG</b>	Implementing Electronic Government
<b>IIP</b>	Investors in People
<b>IOSH</b>	Institute of Occupation Safety and Health
<b>IPDR</b>	Individual Performance and Development Review
<b>IPDS</b>	Integrated Personal Development System
<b>IRMP</b>	Integrated Risk Management Plan
<b>IRS</b>	Incident Recording System
<b>IRU</b>	Incident Response Unit
<b>ISU</b>	Incident Support Unit
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<b>JERA</b>	Joint Emergency Response Arrangements
<b>JFS</b>	Juvenile Fire-setters Scheme
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<b>KPI</b>	Key Performance Indicator
<b>KLOE</b>	Key Lines of Enquiry

## Hereford & Worcester Fire and Rescue Authority

### GLOSSARY OF TERMS

<b>LASER</b>	Learning about Safety by Experiencing Risk
<b>LEA</b>	Local Education Authority
<b>LFF</b>	Leading Fire Fighter
<b>LGA</b>	Local Government Association
<b>LGV</b>	Light Goods Vehicle
<b>LIBID</b>	London Interbank Bid Rate
<b>LPG</b>	Liquid Petroleum Gas
<b>LPSA</b>	Local Public Service Agreement
<b>LRF</b>	Local Resilience Forum
<b>LRI</b>	Learning Resource International
<b>LSGCM</b>	Long Service and Good Conduct Medal
<b>LSP</b>	Local Strategic Partnership
<b>LTCM</b>	Long Term Capability Management
<b>LTF</b>	Local Training Facilities
<b>MDT</b>	Mobile Data Terminals
<b>MIS</b>	Management Information Systems
<b>MISAR</b>	Mercia Inshore Search and Rescue
<b>MMFE</b>	Management of Major Flood Emergencies
<b>MoU</b>	Memorandum of Understanding
<b>MTFP</b>	Medium Term Financial Plan
<b>NCFSC</b>	National Community Fire Safety Campaign
<b>NEBOSH</b>	National Examination Board in Occupational Safety and Health
<b>NEET</b>	Not in Education, Employment or Training
<b>NFST</b>	National Flood Support Team
<b>NJC</b>	National Joint Council for Local Authorities' Fire Brigades
<b>NOS</b>	National Occupational Standard
<b>NVQ</b>	National Vocational Qualification
<b>OASD</b>	Operational Assessment of Service Delivery
<b>ODPM</b>	Office of the Deputy Prime Minister
<b>OJEU</b>	Official Journal of the European Union
<b>ORS</b>	Opinion Research Services
<b>PDR</b>	Personal Development Review
<b>PFI</b>	Private Finance Initiative
<b>PI</b>	Performance Indicator
<b>PMM</b>	Principal Management Members
<b>PMSO</b>	Project Management Support Office
<b>PO</b>	Principal Officer
<b>PPE</b>	Personal Protective Equipment
<b>PPP</b>	Policy, Planning and Performance
<b>PSA</b>	Public Service Agreement
<b>PSHE</b>	Personal, Social, Health Education
<b>PSRP</b>	Public Services Radio Project
<b>PWLB</b>	Public Works Loans Board
<b>QSA</b>	Quality Systems Audit

# Hereford & Worcester Fire and Rescue Authority

## GLOSSARY OF TERMS

<b>R2R</b>	Rank to Role
<b>RB</b>	Representative Body
<b>RBIP</b>	Risk Based Inspection Programme
<b>RCC</b>	Regional Control Centre
<b>RCCC</b>	Regional Civil Contingencies Committee
<b>RDS</b>	Retained Duty System
<b>RHSCG</b>	Regional Health and Safety Collaboration Group
<b>RIDDOR</b>	Reporting of Injuries, Diseases and Dangerous Occurrences Regulation
<b>RMB</b>	Regional Management Board
<b>RoSPA</b>	Royal Society for the Prevention of Accidents
<b>RPE</b>	Respiratory Protective Equipment
<b>RRF</b>	Regional Resilience Forum
<b>RRO</b>	Regulatory Reform Order
<b>RRT</b>	Regional Resilience Team
<b>RSIG</b>	Road Safety Implementation Group
<b>RTA</b>	Road Traffic Accident
<b>RTC</b>	Road Traffic Collision
<b>SAP</b>	Systems Application and Products
<b>SARA</b>	Severn Area Rescue Association
<b>SBE</b>	Standards Board for England
<b>SCC</b>	Strategic Command Centre
<b>SCE</b>	Supported Capital Expenditure
<b>SCG</b>	Strategic Command Group
<b>SDA</b>	Service Delivery Agreement
<b>SFSO</b>	Senior Fire Safety Officer
<b>SFU</b>	Small Fires Unit
<b>SHA</b>	Strategic Holding Area
<b>SHEBA</b>	Safety in the Home and Electric Under Blanket Assessment
<b>SLA</b>	Service Level Agreement
<b>SM</b>	Station Manager
<b>SOLACE</b>	Society of Local Authority Chief Executives
<b>SoRP</b>	Statement of Recommended Practice
<b>SPI</b>	Service Policy Instruction
<b>SRT</b>	Swift Water Rescue Team
<b>SSI</b>	Special Service Incidents
<b>T&amp;DC</b>	Training and Development Centre
<b>UoR</b>	Use of Resources
<b>USAR</b>	Urban Search and Rescue
<b>UWFS</b>	Unwanted Fire Signal
<b>VMDS</b>	Vehicle Mounted Data System
<b>WAN</b>	Wide Area Network
<b>WM</b>	Watch Manager
<b>WMRMB</b>	West Midlands Regional Management Board
<b>YFA</b>	Young Firefighters' Association