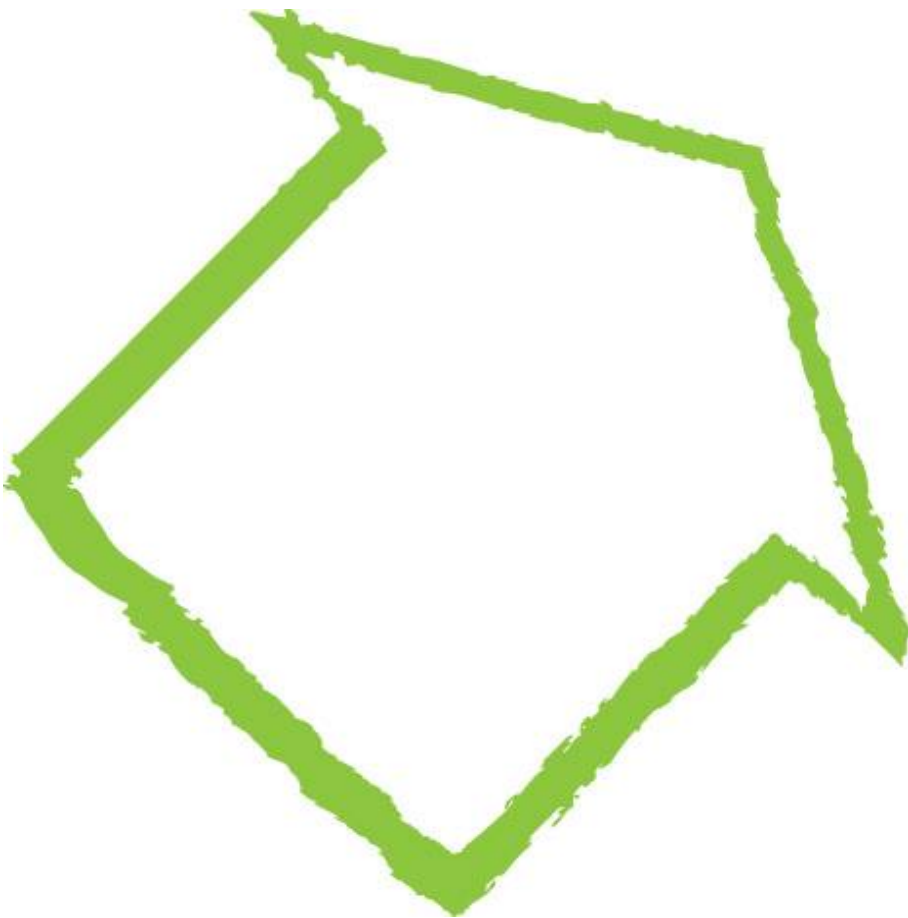


# Audit and Inspection Plan

Hereford and Worcester Fire And Rescue Authority

Audit 2008/09

October 2008



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# Contents

<b>Introduction</b>	<b>3</b>
<b>Responsibilities</b>	<b>4</b>
<b>Fees</b>	<b>5</b>
<b>Auditor's report on the financial statements</b>	<b>7</b>
<b>Use of resources 2008/09</b>	<b>9</b>
<b>Mandated work</b>	<b>10</b>
<b>Fire and rescue performance assessment framework</b>	<b>11</b>
<b>Advice and assistance</b>	<b>12</b>
<b>The audit and inspection team</b>	<b>13</b>
<b>Appendix 1 – Elements of our work</b>	<b>15</b>
<b>Appendix 2 – Basis for fee</b>	<b>17</b>
<b>Appendix 3 – Initial risk assessment – use of resources and VFM conclusion</b>	<b>19</b>
<b>Appendix 4 – Independence and objectivity</b>	<b>20</b>

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## Status of our reports

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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# Introduction

- 1 This plan sets out the audit and inspection work that we propose to undertake for the 2008/09 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of moving towards Comprehensive Area Assessment (CAA). It reflects:
  - audit and inspection work specified by the Audit Commission for 2008/09;
  - current national risks relevant to your local circumstances; and
  - your local risks and improvement priorities.
- 2 During 2008/09, the role of Relationship Manager will be replaced by the post of Comprehensive Area Assessment Lead (CAAL). The CAAL will provide the focal point for the Commission's work in your local area, lead the CAA process, and ensure that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies. The Commission has become the statutory gatekeeper of all inspection activity involving local authorities.
- 3 This plan has taken into account items following the completion of our audit for 2007/08. The audit planning process for 2008/09, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

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# Responsibilities

- 4 We comply with the statutory requirements governing our audit and inspection work, in particular:
  - the Audit Commission Act 1998;
  - the Local Government Act 1999;
  - the Fire and Rescue Services Act 2004; and
  - the Code of Audit Practice.
- 5 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
  - the financial statements (including the annual governance statement); and
  - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies (from April 2008) sets out the respective responsibilities of the auditor and the Authority. The Audit Commission has issued a copy of the Statement to every audited body.
- 7 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.

# Fees

- 8 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2008/09. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 9 The total indicative fee for the audit and inspection work included in this audit and inspection plan for 2008/09 is for £69,788, which compares to the actual fee of £68,400 for 2007/08.
- 10 A summary of this is shown in the table below. The fee is determined by audit risks identified, mandated work and basic assumptions. The basis for the fee and assumptions is included in Appendix 2.

**Table 1 Audit and inspection fee**

<b>Audit area</b>	<b>Planned fee 2008/09</b>	<b>Actual fee 2007/08</b>	<b>Planned fee 2007/08</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Opinion audit	48249	52861	37461
Use of Resources	21539	15539	15539
<b>Total audit fees</b>	<b>69788</b>	<b>68400</b>	<b>53000</b>

- 11 The Audit Commission scale fee for Hereford and Worcester Fire and Rescue Authority (FRA) is £65180. The fee proposed for 2008/09 is + 7 per cent compared to the scale fee and is within the normal level of variation specified by the Commission.
- 12 In setting the fee, we have taken account of the problems encountered in the 2007/08 opinion audit and assumed that:
- there will be some improvement in the preparation of the statement of accounts and working papers compared to that of 2007/08;
  - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007/08;
  - internal audit undertakes appropriate work on all systems; and
  - good quality working papers and records will be provided to support the financial statements at a date to be agreed.

Further details of our assumptions are outlined in Appendix 2.

- 13 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 14 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the FRA. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.
- 15 The main differences for the increase in fee from 2007/08 are as follows.
- We have built in more time for the opinion audit to reflect the problems we encountered in 2007/08. We anticipate that part of this additional time will be used to discuss with finance staff ways of avoiding a repetition of those problems. The fee level assumes that the general ledger implemented half way through 2007/08 has become embedded.
  - Of the total fee we have agreed to reserve £4,400 as a contingency sum which will only be used if required.
  - We have built in more time for review of Data Quality. In line with the new requirements the cost is limited to £6,000.
- 16 The fee (plus VAT) will be charged in 12 equal instalments from April 2008 to March 2009.

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### **Specific actions Hereford and Worcester Fire and Rescue Authority could take to reduce its audit fees**

- 17 The Audit Commission requires its auditors to inform an authority of specific actions it could take to reduce its audit fees. We have identified the following actions the FRA could take.
- Ensure that the internal audit function is sufficiently resourced to deliver all its planned work.
  - Carry out a detailed review of the accounts closing processes including using feedback from ourselves, guidance on working papers and consideration of the adequacy of staffing available to effectively close down the accounts.

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### **Process for agreeing any changes in audit fees**

- 18 As set out in paragraph 3, we expect that the initial risk assessment may change as the year progresses. Where this is the case, we will discuss this in the first instance with the Treasurer. Supplements to the plan will be issued to record any revisions to the risk and the impact on the fee.

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# Auditor's report on the financial statements

19 We are required to issue an audit report giving our:

- opinion on whether the financial statements present fairly the financial position of the Authority as at 31 March 2009; and
- conclusion on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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## Financial statements

20 We will undertake a risk assessment for our audit of the financial statements and these will be included within a separate opinion audit plan for the audit of the financial statements which will be issued in February 2009.

21 At this stage we are aware of the following risks that are likely to impact on our audit of the financial statements.

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**Table 2**                      **Key risks Identified**

<b>Key risks identified</b>	<b>Planned work to address the risk</b>
The staffing and quality problems encountered in the preparation of the 2007/08 accounts	We will provide the Finance team with detailed feedback on the issues encountered together with suggestions as to how these could be overcome. We will discuss at an early stage the detailed working paper requirements which will help us carry out the audit with maximum efficiency.
The move towards a Regional control centre where we need to consider the accounting implications of the FRA's involvement	We will work with the finance team so that we both understand the accounting requirements as they arise.

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22 Details of the risk assessment process are outlined in Appendix 3.

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**VFM conclusion**

- 23** In reaching our conclusion, we will review evidence that is relevant to the Authority's performance management and financial management arrangements.
- 24** The key risks highlighted from the planning are summarised in the table below with details of planned work to mitigate the risks.

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**Table 3 Key risks identified**

<b>Key risks identified</b>	<b>Planned work to address the risk</b>
The use of performance management information to inform service delivery.	This will be addressed in our work in relation to the use of performance data.

## Use of resources 2008/09

- 25 The Audit Commission has specified that auditors will complete a use of resources assessment for 2008/09. This will be a new assessment forming part of the CAA framework for 2009.
- 26 The approach to the new use of resources assessment will be focussed on three themes with detailed Key Lines of Enquiry to be confirmed. For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Authority to mitigate the risk, and plan the work accordingly.
- 27 The initial risk assessment for use of resources work is shown in Appendix 3. This will be updated through the continuous planning process as the year progresses.

# Mandated work

28 As part of the audit, the mandated work programme comprises:

- data quality for 2008/09; and
- whole of government accounts.

Appendix 1 highlights the work to be undertaken.

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# Fire and rescue performance assessment framework

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**Table 4** Summary of inspection activity

<b>Inspection activity</b>	<b>Reason/impact</b>
Comprehensive Area Assessment Lead (CAAL)	To act as the Commission's primary point of contact with the Authority and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of Travel (DoT) assessment	An assessment of improvement, or deterioration, in performance measured through a scored Direction of Travel assessment. The assessment will be outcome focused and will draw together other assessments on the FRA. The DoT assessment summary will be published on the Commission's website.

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# Advice and assistance

- 29 Under paragraph 9 of Schedule 2A of the Audit Commission Act 1998 we have powers to provide 'advice and assistance' (A&A) to another public body where this is requested.
- 30 If you wish the Commission to provide additional services under these powers, please contact us.

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# The audit and inspection team

31 The key members of the audit and inspection team for the 2008/09 audit are shown in the table below.

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**Table 5 Audit and inspection 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 the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Fire Officer and Audit committee.
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 Treasurer and Director of Finance.
Mary-Ann Bruce Comprehensive Area Assessment Lead	<a href="mailto:ma-bruce@audit-commission.gov.uk">ma-bruce@audit-commission.gov.uk</a>  0844 798 3554	The primary point of contact with the FRA and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.

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## Quality of service

- 32 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve the service, please contact me in the first instance. Alternatively, you may wish to contact the West Midlands sub Region Head of Operations, Phil Jones.
- 33 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About', which is available from the Commission's website or on request.

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## Planned outputs

- 34 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

**Table 6** Planned outputs

<b>Planned output</b>	<b>Indicative date</b>
Opinion Audit Plan	February 2009
Annual governance report	June 2009
Auditor's report giving an opinion on the financial statements	June 2009
Whole of Government Accounts audit report	October 2009
Final accounts memorandum	November 2009
Annual Audit and Inspection Letter	March 2010

# Appendix 1 – Elements of our work

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## Financial statements

- 1 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 2 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the FRA as at 31 March 2009 and its income and expenditure for the year.
- 3 We are also required to review whether the Annual Governance Statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the Annual Governance Statement is misleading or inconsistent with our knowledge of the Authority.

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## Value for money conclusion

- 4 The Code requires us to issue a conclusion on whether the FRA has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires me to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at my conclusion.
- 5 In meeting this responsibility, we will review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators, we will normally place reliance on their reported results to inform our work.
- 6 We will also follow up audit work from previous years to assess progress in implementing agreed recommendations.

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### Use of resources assessment

- 7 The Commission has now consulted on its proposals for the 2008/09 use of resources assessment. It proposes that the work required to arrive at the 2008/09 use of resources assessment is fully aligned with that required to arrive at the auditor's 2008/09 value for money conclusion.
- 8 The Commission proposes that the assessment will be based upon the evidence from three main themes.
  - Managing money.
  - Managing the business.
  - Managing other resources.

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### Data quality

- 9 Auditors will be required to undertake audit work in relation to data quality which will be directly linked to the VFM conclusion and the use of resources assessment.
- 10 From 2008/09, the approach to data quality is being considered as part of the use of resources framework. As part of the approach, the Audit Commission will specify work on fire performance indicators.

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### Whole of government accounts

- 11 We are required to review and report on your Whole of Government Accounts consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office.

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### National Fraud Initiative

- 12 From 2008/09 work relating to the National Fraud Initiative will be carried out directly by the Commission under its new data matching powers under the Serious Crime Act 2007. The Commission will be consulting audited bodies on the work programme and fee scales for the National Fraud Initiative later this year.

## Appendix 2 – Basis for fee

- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is coordinated with the work of other regulators, and that our work helps you to improve.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying at the FRA with reference to:
  - our cumulative knowledge of the FRA;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
  - interviews with FRA officers;
  - liaison with internal audit; and
  - the results of other review agencies' work where relevant.

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### Assumptions

- 3 In setting the fee, we have assumed that:
  - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007/08 and that action has been taken to address the issues which arose;
  - you will inform us of significant developments impacting on our audit;
  - internal audit meets the appropriate professional standards;
  - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
  - good quality working papers and records will be provided to support the financial statements at a date to be agreed;
  - requested information will be provided within agreed timescales; and
  - prompt responses will be provided to draft reports.
- 4 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.

- 5 Changes to the plan will be agreed with you. These may be required if:
- new residual audit risks emerge;
  - additional work is required by the Audit Commission or other regulators; or
  - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

## Appendix 3 – Initial risk assessment – use of resources and VFM conclusion

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
Regional control centre	The FRA is already planning for the changes	Yes	We will work with you to ensure, in the first instance, that the accounting implications of the change are properly recognised.	UoR KLOE/VFM conclusion criterion
Use of performance data	The FRA has already taken steps to address this issue which was raised in the 2006/07 Annual Audit and Inspection Letter	No	N/A	UoR KLOE/VFM conclusion criterion
Internal audit resourcing		Yes	We will work with Internal Audit to help ensure that an effective Internal Audit service is delivered	UoR KLOE/VFM conclusion criterion

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# Appendix 4 – Independence and objectivity

- 1 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 2 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.
- 3 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 4 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 5 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
  - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
  - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 6 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit committee. The auditor reserves the right, however, to communicate directly with the Authority on matters which are considered to be of sufficient importance.
- 7 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into 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.

## Appendix 4 – Independence and objectivity

8 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
- 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.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of 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.
- The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

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### Sustainability

9 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

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# The Audit Commission

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

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, covering the £180 billion spent by 11,000 local public bodies.

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

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