

Government and Public Sector

October 2005

Hereford and Worcester Fire and Rescue Authority

2004/05 Audit Letter

The Members
Hereford and Worcester Fire and Rescue Authority

C/O Worcestershire County Council

County Hall
Spetchley Road
Worcester
WR5 2NP

October 2004

Ladies and Gentlemen

Audit Letter 2004/05

We are pleased to present our Audit Letter for 2004/05. We hope that the information contained in this report provides a useful source of reference for Members. We will be pleased to answer any questions or discuss matters further at the next Fire and Rescue Authority meeting.

Yours faithfully

PricewaterhouseCoopers LLP

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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code), which was issued in March 2002. This is supported by the Statement of Responsibilities of Auditors and Audited Bodies, which was issued in April 2000. Both documents are available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. Our reports and audit letters are prepared in the context of this statement and in accordance with the Code.

Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party. A new Code of Audit Practice will be in place for the 2005/06 audit year, together with a new Statement of Responsibilities of Auditors and Audited Bodies, both of which were issued in March 2005.

Executive summary

The purpose of this letter

We write to you each year, usually on completion of our audit, to summarise the more important issues that we wish to bring to your attention.

Under the new Code of Audit Practice which will be in effect for 2005/06, we are encouraged to report our main audit findings as soon as possible after the completion of the audit.

Our audit work during the year was performed in accordance with the plan that we presented to you on 20th July 2005. The other reports which we have issued to members during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate are the interim report and the SAS610 report.

We have set out in the main section of the report what we consider to be the most important issues that we have discussed with you during the course of our work.

Accounts and Governance

Accounts

The purpose of our accounts work was to perform an audit of the financial statements of the Authority, in accordance with approved auditing standards.

Our audit timetable was moved forward again this year to help to accommodate the Authority's tighter deadlines for approving the accounts. We are pleased to report that we were provided with a full draft set of accounts on the first day of our audit visit. This reduction in accounts closedown time is a considerable achievement for all those involved. In 2005/2006 financial year the Authority faces another challenge when the timetable moves forward by another three weeks, a close down timetable has been produced to enable a smooth process.

Formal communication of relevant audit matters to those charged with governance (SAS610 report)

We presented our "SAS 610 Report" setting out the findings of our accounts audit, to the Fire and Rescue Authority (FRA) on 20 July 2005. We did not identify any errors during our audit of the Authority's financial statements that have not been adjusted by management. There were no matters included in that report, or that have arisen subsequently, that we need to bring to your attention in this letter.

We have issued an unqualified audit opinion on the Authority's 2004/05 financial statements.

Financial standing

The Authority is now constituted under the Fire and Rescue Services Act 2004. The 2004 Act meant that this was the first year it set its budget requirements and precept and directly received a share of the Revenue Support Grant and Non Domestic Rates instead of being funded by constituent authorities.

As a result of the new funding arrangements introduced in the 2004 Act the Authority is now required to establish its own reserves. The medium term financial plan includes provision to build up general reserves to a prudent level. In 2004/05 a number of specific earmarked reserves were also created.

In July 2004 the ODPM instructed the Authority to reduce the budget it had set in February by £1m. Council tax payers had to be rebilled at a cost of £0.365m. The total budget for the year was £25.798m which included creation of reserves of £0.548m. We are pleased to report that despite cost pressures the budget was met as illustrated by the table below.

	Budget £m	Outturn £m	Variance £m
Expenditure	25.250	25.145	(0.105)
Reserve	0.548	0.653	0.105

There were a number of reasons for the positive variance, most notably an underspend against budget of £0.354m for staff costs as a result of a larger than anticipated reduction in staff numbers, capital financing savings on leases and additional investment income totalling £0.205m and a larger than budgeted cost of pension transfer values and lumps sums as a result of a timing issue.

The total amount spent on capital programme was £0.745m. The deposit of £0.525m for the new headquarters formed the largest element of capital expenditure. The Authority was committed to pay £4.725m to complete the purchase by the end of 2005/06 financial year this took place in 8th April 2005.

Moving forward the authority faces continued financial pressures from the firefighters pay settlement and the need to achieve efficiency targets set by the ODPM. It is projected that this target could be in the region of £0.31m. Plans

have been developed as part of the medium term planning process for the Authority. As part of our performance improvement work this is an area that is planned for review going forward to ensure that the savings are sustainable.

Prudential Framework for Capital Expenditure

From 1 April 2004, the authority has been able to plan its capital expenditure under the new Prudential Framework, which focuses on the Authority's ability to afford the consequences of spending decisions from future years' revenue accounts and allows it to set its own limits on the borrowing needed to achieve an affordable capital strategy.

We have reviewed the steps the Authority took in 2004/05 to implement the Prudential Framework and manage the Authority's spending and borrowing in the first year of operation, including the processes for reviewing limits and indicators under the CIPFA Prudential Code and determining the prudence and affordability of any prudential borrowing undertaken. We are pleased to report that our work did not identify any matters of concern.

Statement on internal control

The Accounts and Audit Regulations 2003 require that the statement of accounts prepared by an authority in England should contain a statement on internal control (SIC). These statements refer to much wider systems of control than purely financial systems. Authorities are also required to conduct annual reviews of the effectiveness of the system of internal control, which will provide the findings to support the SIC. We concluded that the SIC disclosure included in the Authority's 2004/05 statement of accounts met the requirements of the regulations and was not inconsistent with other information we were aware of.

Internal Audit

As part of the Managed Audit approach we seek to rely on detailed work performed by Internal Audit with regard to testing the existence and operation of internal controls operating within key financial systems.

As part of the managed audit process we agreed an additional plan of work in three areas, formally to be undertaken by Internal Audit, as part of the external audit plan. This was in recognition of the fact that Internal Audit's priorities had been redirected and resourcing was below optimal as a result of a secondment. We have agreed as a short term measure to assist with undertaking some reviews over the forthcoming audit cycle to assist Internal Audit.

Systems of internal financial control

We have discussed the findings of our review of systems of internal financial control at the Authority with the Treasurer at a clearance meeting. Overall we concluded that the operation of the Authority's systems was sufficient to support our planned audit approach, and we raised no significant areas of concern. Part III of the SAS610 report identified the internal control weaknesses which we have identified during the course of the audit and the management action which has been agreed to be taken in relation to these.

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

We are pleased to report that no significant issues arose from our work on the Authority's standards of financial conduct and arrangements for preventing and detecting fraud and corruption.

The legality of financial transactions

There are no issues arising from our work in this area that we wish to bring to your attention.

Electors' Questions and Objections

Section 16 of the Audit Commission Act 1998 provides local electors with the opportunity each year to inspect the accounts of a local authority and subsequently, to put questions and/or objections relating to those accounts to the auditor. Any such representations must be resolved prior to the closure of the audit.

We have not received any questions from members of the public relating to this year's financial statements.

Performance management

Integrated Risk Management Plan (IRMP).

Hereford and Worcester Fire and Rescue Authority have seen a considerable amount of change over the past few years with the introduction of the Fire and Rescue Services Act 2004. The Act puts the prevention of fires firmly with the Authority and the need to work more closely with partners in the community to deliver this duty. In response the Authority have put together their vision of how they intend to create "safer communities" within their Integrated Risk Management Plan (IRMP).

As part of our on-going audit work with the Authority we have discussed the need to review, in conjunction with the officers, the overall performance management framework relating to the IRMP to determine whether the changes at an operational level are filtering through the organisation so that at an individual firefighter level personnel are fully aware of how their personal actions contribute to the overall good of the organisation.

Comprehensive Performance Assessment (CPA)

The Authority's CPA assessment was undertaken by the Audit Commission in February of this year. In preparation for the CPA assessment the Authority completed a number of actions, including a peer challenge assessment by Excellence in Business. The results of the CPA assessment process have now been published and are intended to assist fire authorities in providing a baseline measurement to help them focus on improvement.

We are pleased to report that the Authority was rated as 'good' and the Authority is now in the process of responding to the CPA assessment.

Best Value

Under the Local Government Act 1999 we are required to carry out an audit of the Authority's Best Value Performance Plan (BVPP). We completed and reported our audit work on the Authority's BVPP for the year ended 31 March 2005 in December 2004. The plan was unqualified and we made no statutory recommendations.

We have now completed our audit work with regard to the Authority's BVPP for the year ended 31 March 2006 and we issue our opinion on the plan prior to 31 December 2005.

As part of this work, we also conducted a sample based examination of outturn performance indicators. In last year's performance indicator audit, we identified that the Authority should review and improve its process for collating and reporting accurately BVPI 12 a & b. We are pleased to report that our audit identified no further issues with regard to BVPI 12 a & b.

Fees Update

Fees update

We reported our original fee proposals as part of our Audit Plan for 2004/05, which we presented to FRA in July 2005. These fee proposals covered the 12 month period from 1 April 2004 until 31 March 2005.

Our actual fees charged were:

	2004/05 Fee charged
Accounts	19,800
Governance	12,000
Performance (including CPA)	15,000
Internal audit support	6,890
Total	53,690

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Government and Public Sector

October 2005

Hereford and Worcester Fire and Rescue Authority 2005/06 Audit Plan

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June 2005

Ladies and Gentlemen

Audit and Inspection Plan 2005/06

We are pleased to present our Audit Plan for 2005/06, which has been prepared under the new Code of Audit Practice. At the start of the financial year we presented an indicative Audit Plan which provided an early indication of our assessment of key risks, our likely audit strategy, our proposed reporting and audit timetable and related fees.

This document updates the indicative plan following the completion of our audit of the Authority's 2004/05 accounts and receipt of definitive guidance from the Audit Commission on the fee implications of the new Code of Practice.

Discussion of our Plan with you ensures that we understand your concerns and that we agree on mutual needs and expectations to provide you with the highest level of service quality.

Yours faithfully

PricewaterhouseCoopers LLP

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In April 2000 the Audit Commission issued a revised version of the Statement of Responsibilities of Auditors and Audited Bodies. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. This statement is currently under further revision by the Audit Commission to reflect the new Code of Audit Practice applicable from 1 April 2005.

Our reports and management letters are prepared in the context of this statement and / or any subsequent revision to the Statement.

Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

Introduction

The purpose of this Plan

Our Audit Plan (our Plan) has been prepared to inform the officers and members of Hereford and Worcester Fire and Rescue Authority (the Authority) about our responsibilities as your external auditors and how we plan to discharge them. Every Authority is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the members and officers of the Authority.

Our principle objective is to carry out an audit in accordance with the Audit Commission's code of Audit Practice (the Code).

Based upon discussion with management and our understanding of the Authority and the local government sector, we note the recent key developments outlined below. Our Plan has been developed to consider the impact of these developments.

Key Risks

- Comprehensive Performance Assessment (CPA)
- Trading
- Prudential Framework for capital expenditure
- Partnerships

- Efficiency Agenda
- Early closing and whole of Government accounts
- Freedom of Information Act
- Charging for discretionary services

We provide you with details of our plans for the audit at the beginning of the financial year. The Audit Plan therefore outlines the business risks and audit approach for 2005/06, including the 2005/06 final accounts audit which we will undertake in summer 2006.

We would like to thank members and officers of the Authority for their help in developing this Plan.

Our Responsibilities

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code) which has been revised with effect for the 2005/06 audit year. This is supported by the Statement of Responsibilities of Auditors and Audited Bodies (the Statement), which was issued in March 2005. Both documents are available from the Treasurer of the audited body.

The purpose of the Statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas.

Our reports and audit letters are prepared in the context of this Statement and in accordance with the Code. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

New Code of Audit Practice

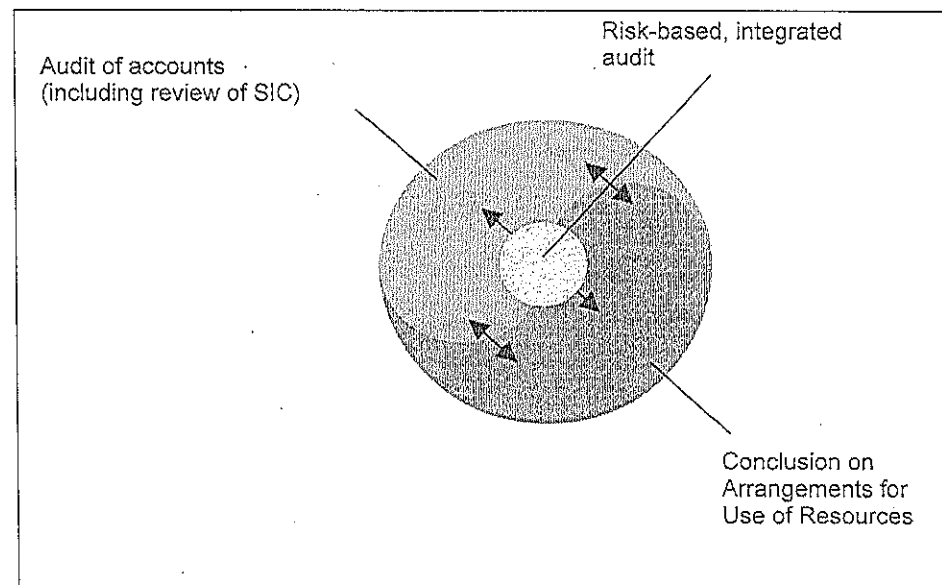
The Audit Commission has issued a new Code of Audit Practice that is applicable from the 2005/06 financial year.

There are now 2 objectives to our work under the new Code:

- Accounts including a review of the Statement of Internal Control (SIC); and

- Use of Resources.

This is illustrated in the diagram below:



Within the Use of Resources objective, we are now required to confirm that we are satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in the use of resources. This conclusion will be based on supporting criteria, outside the Code, which will be published and updated as necessary by the Audit Commission.

We will subsequently issue a new two part audit report at the end of our accounts audit for 2005/06, including the following aspects:

- Part A: Financial Statements 'presents fairly' opinion
- Part B: Any report, by exception, on:
 - The Statement of Internal Control;
 - Any matters that prevent the auditor from being satisfied that the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
 - Any matters that prevent the auditor from concluding that the best value performance plan (BVPP) has been prepared and published in accordance with the relevant requirements; and
 - Any other exercise of powers in relation to the BVPP under the Local Government Act 1999

We provide a more detailed summary of the main changes from the previous Code in Appendix A to this Plan and will provide further guidance during the year on what the new Code means in practice for our work at the Authority.

Key business and audit risks

Planning of our audit

To determine the nature and extent of the audit work required we have considered each area of operations and assessed the extent that we believe there are potential business and audit risks that relate to one of our Code objectives. We have then considered our understanding of how management's control procedures mitigate these risks. Based on this assessment we have scoped our core work in each of these areas.

It is the responsibility of the Authority to identify and address its operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we consider and assess the significant operational and financial risks that are relevant to our responsibilities under the Code. This exercise is only performed to the extent required to prepare our Plan so that it properly tailors the nature and conduct of audit work to the circumstances of the Authority. It is not designed to identify all risks affecting the operations of the Authority or all internal control weaknesses.

This Plan details those areas which we consider to be high risk and includes our response to those risks. Our response also explains where we are intending to rely upon internal controls, the work of inspectors and other review agencies and the work of internal audit, if applicable.

Financial Statements audit

Our financial statements audit is carried out in accordance with our Accounts Code objective, which requires us to comply with auditing standards. We are required to adopt International Standards of Auditing (ISAs) for the first time in our financial statements audit for 2005/06. We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and present fairly the financial transactions and position of the Authority. The assessment of what is material is a matter of professional judgement and includes consideration of both the amount and nature of transactions.

The adoption of ISAs in 2005/06 means that work previously undertaken as part of the old Financial Aspects of Corporate Governance Code objective will now be undertaken as part of the audit of the financial statements under the new Code. In particular, specific procedures will be carried out in respect of fraud and corruption, laws and regulation and going concern/financial standing.

Use of Resources audit

Our Use of Resources audit objective requires us to carry out sufficient and relevant audit work in order to form a conclusion on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In meeting this responsibility we review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements and report on

these arrangements. We also have a responsibility to consider, and report on, the Authority's compliance with statutory requirements in respect of the preparation and publication of its best value performance plan.

Our conclusion on proper arrangements to secure economy, efficiency and effectiveness in the use of resources will be based on a number of criteria specified by the Audit Commission. When forming our conclusion we will seek to rely on:

- A self assessment performed by the Authority against the criteria;
- Internal control mechanisms in place at the Authority;
- Any relevant work of internal audit, inspectors and other review agencies;
- Work performed in respect of other Code requirements and mandatory work required by the Audit Commission; and
- Targeted audit work to address specific risks and validate arrangements in place at the Authority.

We will discuss the criteria on which our conclusion will be based with the Authority when they are finalised by the Audit Commission.

Our conclusion will be issued as part of the audit opinion and report on the 2005/06 financial statements of the Authority.

Mandatory work

In 2005/06 we will also be required to carry out mandatory work at the Authority in respect of the Comprehensive Performance Assessment relating to the use of resources assessment.

The use of resources assessment is a key part of the Comprehensive Performance Assessment and will be conducted in all Authority's councils. It involves judgments on financial planning and management, internal controls, and financial standing. It will also provide a value for money (VFM) judgment drawing on a self-assessment by the Authority. It also focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Authority's priorities and improve services.

The work required for the use of resources judgment will be based on annual audit work. The Audit Commission will define the scope and methodology for the work required to form the use of resources assessment and the links between this

judgement and the work to support our conclusion on proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

We will discuss the key lines of enquiry on which our judgement will be based with the Authority when they are finalised by the Audit Commission.

We anticipate that we will be required to carry out our assessment in autumn this year to support the Audit Commission's annual CPA reports.

Risk assessment results

The table below summarises the results of our overall risk assessment in respect of our Code responsibilities for the significant financial and operational risks facing the Authority and our planned response.

Business risks	Audit approach	Comparison to 2004/05 Audit Plan
<p><u>Comprehensive Performance Assessment (CPA)</u></p> <p>All Fire Authority's were subject to a Comprehensive Performance Assessment (CPA) in 2005.</p> <p>It is anticipated that authorities will be required to respond to the overall CPA assessment by developing an improvement plan to address identified weaknesses and secure improvements in services. This improvement plan and subsequent developments in relation to it will inform our future risk-based audit plans.</p>	<p><i>We will monitor progress made in developing and acting upon improvement plans, with a view to preparing Scored Judgements in 2006, if requested.</i></p>	<p><i>Not included in 2004/05 plan</i></p>
<p><u>Trading</u></p> <p>Under the Local Government Act 2003, authorities in England with a CPA rating of "excellent", "good" or "fair" are empowered to trade in any activity that is carried out for the purpose of carrying on their statutory functions. These powers are only exercisable through a company. Any intention to use these powers will necessitate robust business planning, putting existing activities on a properly commercial basis, moving the activity into a company and formalising the Authority's dealings with the company.</p>	<p><i>Review of the Authority's financial management arrangements for any trading operations. We will assess the legality of trading operations in light of current ODPM guidance.</i></p>	<p><i>Not included in 2004/05 plan</i></p>
<p><u>Prudential Framework for Capital Expenditure</u></p> <p>The Prudential Framework was introduced on 1 April 2004, but authorities have adopted an incremental approach to taking up all the freedoms and flexibilities that it offers for the delivery of services and capital investment. It is likely that the Authority will continue to develop arrangements to manage the new risks introduced and take advantage of the new opportunities offered by the Framework throughout 2005/06. In particular, the Authority will be monitoring the effectiveness of the procedures, limits and indicators it has adopted to manage its capital activities prudently.</p>	<p><i>Continuing review of the Authority's progress in implementing the Prudential Framework and developing the authority's processes for delivering an effective capital strategy.</i></p> <p><i>Review of management of position against limits and indicators throughout 2005/06.</i></p> <p><i>Review of major expenditure/borrowing decisions taken in 2005/06.</i></p>	<p><i>No change</i></p>
<p><u>Partnerships</u></p> <p>Local authorities are being given greater encouragement to work in partnership with other parts of the public services and the private and voluntary sectors. The risks of entering into any partnership are that:</p> <ul style="list-style-type: none"> •The purpose of the partnership is unclear 	<p><i>We will maintain a watching brief, dependent upon position reached in the development and operation of the partnerships. We will discuss the need for targeted work.</i></p>	<p><i>No change</i></p>

Business risks	Audit approach	Comparison to 2004/05 Audit Plan
<ul style="list-style-type: none"> •The partnership is dominated by one body so the needs of all the partners are not met •Accountability arrangements are unclear, resulting in no-one taking responsibility and unnecessary exposure to loss •There are inadequate arrangements to monitor the outcome of the partnership arrangements. 		
<p><u>Efficiency Agenda</u></p> <p>Chancellor of the Exchequer asked Sir Peter Gershon to review public sector efficiency. The review focused on releasing resources to fund front line services by improving the efficiency of service delivery. Gershon's report identified auditable efficiency gains, across the whole of the public sector, of over £20bn in 2007/08. The ODPM has assumed within its own efficiency target that English Fire and Rescue Authorities together will achieve £105m gross efficiency savings in 2007/08 compared to the position in 2004/05. This would amount to a gross efficiency saving in 2007/08 equivalent to approximately 5% of total 2004/05 expenditure.</p>	<p><i>We will discuss the need to undertake a targeted piece of work to review the adequacy of the Authority's arrangements to meet their specific efficiency targets for the next 3 years.</i></p>	<p><i>No change</i></p>
<p><u>Early Closing and Whole of Government Accounts</u></p> <p>HM Treasury has confirmed an intention that local authorities will participate in a second dry run for WGA in relation to 2005/06. The dry run will concentrate on testing arrangements for full audited WGA in 2006/07. Together with a requirement for the approval (30 June) and publication (30 September) of the accounts to be brought forward by another month in 2005/06, new and/or stronger pressures will be applied to the authority's framework for preparing the statement of accounts.</p> <p>A Treasury/ODPM letter of 22 November 2004 confirms that returns prepared for the 2005/06 dry run will be subject to audit. Amounts for the additional audit costs have been included in the 2004 Spending Review settlement.</p>	<p><i>Review of authority's preparations for bringing forward its accounts preparation and publication dates.</i></p> <p><i>Analysis of any risks that might be introduced by new arrangements for earlier closing.</i></p> <p><i>Certification of the Authority's returns for the 2005/06 WGA dry run.</i></p>	<p><i>Confirmed no audit involvement in 2004/05 dry run – no change to planned work.</i></p>
<p><u>Freedom of Information (Fol)</u></p> <p>Although the provisions of the Freedom of Information Act 2000 allowing the public to request information came into effect on 1 January 2005, authorities will be refining their Fol arrangements during 2005/06 for:</p> <ul style="list-style-type: none"> • dealing with requests /ensuring compliance by partner organisations • monitoring and updating the publication scheme 	<p><i>Review of the Authority's arrangements and experience to date with Fol issues.</i></p>	<p><i>Not included in the 2004/05 Plan</i></p>

Business risks	Audit approach	Comparison to 2004/05 Audit Plan
<ul style="list-style-type: none"> auditing archived information. <p>Ineffective implementation of FoI introduces risk of loss arising from inefficient processes for dealing with requests and from legal action where the Authority fails to comply with the 2000 Act.</p>		
<p><u>Charging for Discretionary Services</u></p> <p>The Local Government Act 2003 introduced new powers to charge for services that the Authority was not required to provide and for which charging was not prohibited. Use of these powers requires effective accounting arrangements to ensure that users are not overcharged. The Authority also needs to have recognised the effects that charging could have on patterns of demand for a service and have in place arrangements for recovering unpaid charges.</p>	<p><i>Review of the propriety and value for money of any substantial decisions to charge for discretionary services.</i></p>	<p><i>Not included in the 2004/05 Plan</i></p>

Our team and our independence

Our Team Members

It is our intention that our staff will work on your audit in successive years, developing effective relationships and an in depth understanding of the business. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

We will hold periodic client service meetings with the Authority to gather your feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews will form a valuable overview of our service and its contribution to the business, which we will use to brief new team members and enhance the awareness and understanding of the existing team.

Our audit team is outlined in the table below.

Audit Team	Responsibilities
Engagement Partner <i>Guis Miah</i>	Engagement leader responsible for independently delivering the audit in accordance with the Code of Audit Practice, including agreeing the Audit Plan, quality of outputs and signing opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.
Engagement Manger <i>Sarah Swan</i>	Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan and management of contribution to the Annual Audit and Inspection Letter.
Audit Manager: Use of Resources <i>David Mehaffey</i>	Manager on the audit responsible for co-ordinating the use of resources audit programme including preparing and presenting reports and the BVPP audit.

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to the Authority and of those responsible in the UK Firm for compliance matters. We are not aware of any relationships that, in our professional judgement, may be perceived to impact upon our independence and the objectivity of our audit engagement leader and staff.

Services provided to the Authority

In addition to our audit under the Code, the Firm has not undertaken other work for the Authority.

Relationships and Investments

Senior officers should not seek or receive personal financial or tax advice from PwC. Members who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for an audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

Independence Conclusion

We confirm that in our professional judgement, as at the date of this Plan, we are independent accountants with respect to the Authority, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

Communicating with you

Communications Plan and timetable

Statement of Auditing Standard (SAS) 610: 'Communication of audit matters to those charged with governance' requires auditors to plan with those charged with governance the form and timing of communications to them. We have assumed that 'those charged with governance' are the Audit and Budget Committee.

Our team works on the engagement throughout the year to provide the Authority with a timely and responsive service. Below are the dates when we expect to provide you with the outputs of our audit.

Stage of the audit	Output	Date
Audit Planning	Finalised Audit Plan	October 2005
Audit Findings	Internal control issues and recommendations for improvement	May 2006
	Use of resources issues and preliminary conclusion for discussion	December/January 2006 to be confirmed subject to initial pre work.
	SAS610 Report, including: <ul style="list-style-type: none"> • Expected moderations to the audit report; • Unadjusted misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust; • Material weaknesses in the accounting and internal control systems identified as part of the audit together with recommendations for improvement; • Our views about the qualitative aspects of the Authority's accounting practices and financial reporting; • Any other relevant matters relating to the financial statements audit; and • Summary of findings from our use of resources audit work to support our value for money conclusion 	June 2006
Audit Opinions	Audit Report (incorporating financial statements opinion, best value performance plan opinion and use of resources conclusion)	July 2006
	Annual Audit Letter	October 2006

Audit Fees

The Audit Commission has specified indicative audit fee levels for Local Authorities for the 2005/06 financial year, which depend upon the level of expenditure and potential risk. Based on the Authority's budgeted expenditure, the indicative fee range for audit work set by the Audit Commission is £44,172 +/- 30% (Excluding locally agreed performance improvement work). We have set out below an analysis of proposed audit fees for the year, compared to the prior year:

	2005/06 £	2004/05 £
Accounts	32,800	31,800
Mandatory VFM Opinion	15,500	15,000
Locally targeted Performance Improvement Studies	30,000	-
Total Audit	78,300	46,800

The fee is payable in 4 instalments from 1 July 2005 and excludes VAT and grant claims.

Our fee for the use of resources work includes the following:

- Audit of your 2005/06 BVPP and the BVPI's;
- Completing the new assessment of the Authority's arrangements for VFM as required under the new Code of Audit Practice; and
- Completing the new use of resources assessment required as part of the CPA process for 2005.

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from the management controls within the Authority;
- We are able to place reliance on relevant work of inspectors and internal audit in respect of our VFM conclusion;
- No significant changes being made by the Audit Commission to the VFM criteria on which our conclusion will be based;
- An early draft of the Statement of Internal Control (SIC) being available for us

to review prior to 31 March 2006;

- The Authority providing a fully supported and robust self assessment against the VFM assessment and use of resources criteria prior to 31 March 2006; and
- Our VFM conclusion being unqualified.

If any of these assumptions prove to be unfounded, we will seek a variation to the agreed fee, to be discussed in advance with you.

Our fee for the audit of grant claims is based on the amount of time required to complete individual claims using standard hourly rates published by the Audit Commission. We will discuss and agree this with the Treasurer and his team at the conclusion of our 2005/06 audit.

Locally targeted performance improvement studies

Within the audit plan this year we have agreed to include provision to undertake locally targeted performance improvement studies at the Authority. The number and nature of the individual studies will be discussed with the Brigade Management Team at a meeting on 21st November 2005. Detailed terms of reference for each study will then be developed and we will engage specialists from across our public sector practice to undertake the work.

Initially we anticipate that these reviews could be drawn from the following topics, although we will welcome the opportunity to work with the Authority in other areas.

- Making **performance management** work.
- Engaging in **effective partnership** working
- Improving corporate **risk management**
- Review of **cost reduction** opportunities
- Progressing the **modernisation** agenda

Appendix A: Main Changes to the Code of Audit Practice for 2005/2006

New Code of Audit Practice

The Audit Commission has issued a new Code of Audit Practice that is applicable from the 2005/06 financial year.

There are two objectives to our work under the new Code:

- Accounts including a review of the Statement of Internal Control (SIC); and
- Use of Resources.

The most important changes from the previous Code are:

- A new form of two part audit opinion in which an explicit assurance will be provided (rather than implicitly as at present) on an authority's arrangements to secure value for money in the use of resources;
- A recognition of the central role of the Statement of Internal Control as a source of assurance on controls over financial and corporate management, which together redefine the concept of "value for money";
- The identification of a set of criteria (outside the Code itself), which represent a satisfactory standard of financial and corporate management. Auditors will need to ensure that these criteria are met at each authority and report in the audit opinion where they are not. This may mean some additional work, at least in the first year, for Authorities which have not had value for money work in recent years because of their "excellent" CPA status;
- Recognition of the new International Standards on Auditing (ISAs), which will

converge with UK standards. The relatively stronger guidance on compliance with laws and regulations, fraud, systems and going concern mean that the four components of Financial Aspects of Corporate Governance (in short, legality, fraud, systems and financial standing) can be reintegrated into the financial statements audit. In future they may be reported on by exception, where appropriate, although current levels and standards of work will continue. This means that the three part audit (accounts, financial aspects of corporate governance and use of resources, also known as value for money or performance) will become two parts, accounts and value for money, which come together in the Statement of Internal Control;

- Formalisation of the Joint Audit and Inspection letter and of the requirement that auditors rely on work performed by inspectors in forming their conclusions on value for money;
- Removal of much of the guidance on the exercise of auditors' special powers, which will instead be contained in supporting guidance. The importance of dealing with electors in a proportionate way is emphasised;
- A proposal that, where feasible, recommendations should be costed; which will require the support of the Authority; and
- A requirement for an enhanced report to those charged with governance at the Authority prior to the signing of accounts, containing key points on our use of resources work as well as on the accounts.

Appendix B: Other Engagement Information

The Audit Commission appoints us as auditors to Hereford and Worcester Fire and Rescue Authority and the terms of our appointment are governed by:

- The Code of Audit Practice;
- The Standing Guidance for Auditors; and
- The Annual Letter of Guidance.

There are five further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure or virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We confirm that we each accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that any liability arises out of acts, omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of our respective directors, members, partners, employees, agents or servants.

Access to audit working papers

We may be required to give access to our audit working papers for regulatory purposes or because of other statutory obligations. Typically, in the case of a local government or health body, this would be to the Audit Commission or the National Audit Office for quality assurance purposes.

Quality arrangements

It is our desire to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or Glyn Barker, Assurance and Business Advisory Services leader for the UK, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we are able to ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

Statement of Auditing Standard (SAS) 150 includes a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. For us to fulfil these requirements, management need to inform us of any such matters that arise.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.

Freedom of Information Act

In the event that, pursuant to a request which the Authority has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The Authority agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the Authority shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the Authority discloses this report

or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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