

Annual Audit Letter

Hereford and Worcester Fire and Rescue Authority

Audit 2011/12



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Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from my 2011/12 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 output	My findings	Conclusion
Unqualified audit opinion	I issued an unqualified opinion on the Authority's financial statements on 28 September 2012	
Proper arrangements to secure value for money (VFM)	I issued an unqualified VFM conclusion on the 28 September 2012 as my work did not identify and matters which would lead me to believe the Authority did not have proper arrangements in place for securing economy, efficiency and effectiveness.	

Audit opinion and financial statements

I provided an unqualified opinion on your financial statements as I considered them to be true and fair, and presented without material misstatement on 28 September 2012.

The standard of your financial statements and the working papers provided to support the financial statements together with the support provided to external audit at the final audit visit were improved from last year. You have recently recruited a new Chief Accountant and with this resource being fully available for 2012/13 I would expect these improvements to continue.

Value for money

I am required to satisfy myself that the Authority has made proper arrangements for securing value for money. For 2011/12 the Audit Commission determined two criteria for me to consider:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

On the basis of my work I am satisfied that in all significant respects Hereford and Worcester Fire and Rescue Authority put in place proper arrangements to secure value for money in its use of resources for the year ending 31 March 2012.

Current and future performance

Financial Statements and Annual Governance Statement

On 28 September 2012 I presented my Annual Governance Report (AGR) to the Audit Committee outlining the findings of my audit of the Authority's 2011/12 financial statements. The standard of your financial statements and the working papers provided to support the financial statements together with the support provided to external audit at the final audit visit were improved from last year. You have recently recruited a new Chief Accountant and with this resource being fully available for 2012/13 I would expect these improvements to continue.

My audit identified no material errors and there were no material changes that I was required to bring to your attention. I did identify a number of disclosures and typographical errors and I also asked your management to enhance some disclosures to improve readers' understanding of the accounts. These were all corrected by your management. Testing of the significant risk in respect of quality assurance identified in my Audit Plan did not identify any issues I need to bring to your attention.

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I identified a possible enhancement to your internal controls in respect of the checking the submission of data reported to the Government's Actuary Department (GAD) during the audit and reported this to you within my AGR. Your management are reviewing this and I have not replicated the detailed findings in this letter.

Whole of Government Accounts

The Whole of Government Accounts (WGA) covers approximately 1,300 bodies. Its aim is to provide commercial style accounts for the public sector prepared by the Treasury.

The Authority is required to submit a consolidation pack that summarises the Authority's financial statements in a consistent way with all other local government bodies. To support this I am required to submit a statement confirming that specified entries are consistent with the Authority's audited financial statements. I issued my statement providing this confirmation on the 28 September 2012.

On completion of this work I certified completion of the audit for 2011/12.

Financial Performance

For 2011/12 the Authority set a net revenue budget of £31.195 million, a reduction of £200k from 2010/11. The actual spend in 2011/12 was £0.465 million less than budget. This was mainly because the Authority required a reduced level of provisions at year end.

The net revenue budget for 2012/13 has been set at £33.821 million. At the end of the first quarter of 2012/13, 30 June, you are forecasting an under spend of £0.57 million. This is mainly due to lower than expected spending on whole time uniform pay; redundancy costs; and further identified economies offset by increased costs from the Retained Duty System (RDS) settlement.

The Coalition Government's Comprehensive Spending Review (CSR) in October 2010 announced its initial savings plans from the public sector budget. The savings required for Fire and Rescue Authorities announced in December 2010 were around 28 per cent and required an overall review of how best to deliver services in the longer term. However, given the slow economic recovery it is now anticipated that the Government will need to make further austerity measures; details of which are expected in 2013. The Authority is forecasting budget gaps in future financial years from 2013/14 onwards. There are identified budget gaps of £1.272 million in 2013/14 and £2.054 million in 2014/15 leading to a total budget gap over the four years from 2013/14 of £11.616 million. These gaps are significant funding risks which present considerable risks for the medium term financial position of the Authority. There are a number of key areas of national funding changes which will impact upon the Authority's finances from 2013/14. These include base-lining of current expenditure and grant; the total of the allocated fire grant; the business rate retention scheme; the localisation of council tax support arrangements; local council tax policy and the implications of the 2012/13 council tax freeze grant.

Whilst the Authority will be impacted by many of these it will not necessarily be in a position to directly influence them. The details around the settlement for Fire Authorities for 2013/14 and 2014/15 are still unknown and it is unlikely that any indications will be given until late 2012. You have been clear in your communication of the medium term financial strategy, the assumptions adopted and the challenges you face. You are pro-active in identifying efficiencies and have identified plans to produce savings of £1.2 million in 2013/14 leading to savings of £1.7 million in both 2014/15 and 2015/16. You closely monitor expenditure, historically do not exceed budget levels and you have useable revenue reserves of £6.4 million at 31 March 2012. You are also developing a strong strategic alliance with Shropshire & Wrekin Fire and Rescue Authority. Any changes to systems and processes are discussed with them to ensure that there is similarity in the way the organisations work to allow cross border arrangements to thrive and support efficient and effective service delivery in some of the most rural parts of the counties. You are therefore reasonably placed to manage the financial implications for the Authority but having clear plans in place to address the identified budget gaps, once they have been clarified, will be a key issue going forward.

Future Audit Arrangements and Fees

On 28 July 2011 Ministers set out their decision to outsource all the audits currently undertaken by the in-house practice to the private sector. On 5 March 2012 the Audit Commission announced that Grant Thornton (UK) LLP had been awarded the contract for the Audit Commission's West Midlands audit work. The change of audit provider was effective from 1 September 2012 and will cover the 2012/13 audit year onwards. All staff currently employed by the Audit Commission on your audit will transfer to Grant Thornton under TUPE arrangements from 1 November 2012.

Following the outsourcing the total fees charged are expected to reduce by 40% to £43,829 for 2012/13 based on scale fee information published by the Audit Commission.

Value for money

I considered whether the Authority is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Authority has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Risk	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</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>Financial planning may not be realistic.</p> <p>The Authority may not control its spending as planned.</p>	<p>From a review of your medium term financial plans and the 2012/13 budget the Authority has taken appropriate account of the current economic climate and the plans are supported by detailed and robust assumptions.</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>You have 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>

Criterion	Risk	Key messages
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>Resources may not be prioritised sufficiently</p> <p>Efficiency and productivity may need to be improved further</p>	<p>The Authority historically closely monitors its expenditure and does not exceed budget levels. In 2011/12 the Authority reported an under spend detailed in its financial statements enabling funds to be identified to support expenditure. The level of under spend does not indicate weaknesses in financial control.</p> <p>I have reviewed:</p> <ul style="list-style-type: none"> ■ the Authority's approach to evaluating options for making efficiencies; ■ the information the Authority has access to on costs and performance and how it uses it to evaluate options and plans; ■ the benchmarking the authority has undertaken to compare its costs and productivity for key services and the actions arising from this; ■ the arrangements in place to seek and evaluate new ways of delivering services and improving efficiency; ■ the arrangements in place to monitor achievement of efficiencies and the impact the efficiencies have on services and performance; and ■ the arrangements for the setting and monitoring of the Authority's targets. <p>The Authority has continued to build on its arrangements from the previous year.</p> <p>The senior team provide clear leadership on spending priorities and demonstrate a clear understanding of the resource requirements of the service. The service has challenged the existing delivery arrangements of its Community safety and training provision implementing changes.</p> <p>Performance management is strong and appropriately challenged.</p> <p>The Authority benchmarks its performance with other authorities to identify areas for improvement. Efficiencies have been made and efficiency plans continue to be implemented.</p> <p>The Authority is implementing a command and control system following the cessation of the central FiReControl planned arrangements.</p>

Closing remarks

I have discussed and agreed this letter with the Chief Fire Officer and the Treasurer. I will present this letter at the Audit Committee in January 2013.

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.

Reports	Date issued
Audit Plan	December 2011
Annual Governance Report	September 2012
Audit opinion and value for money conclusion	September 2012

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

9 October 2012

Appendix 1 - Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Authority 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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