

Annual Audit Letter

5

Shropshire and Wrekin Fire and Rescue Authority

Audit 2011/12



Contents

- Key messages.....3**
 - Audit opinion and financial statements.....3
 - Value for money3
- Current and future challenges4**
- Financial statements and annual governance statement.....7**
 - Overall conclusion from the audit.....7
 - The governance framework.....7
 - Financial resilience.....8
 - Whole Government Accounts.....8
 - National Fraud Initiative.....8
- Value for money.....9**
- Closing remarks11**
- Appendix 1 – Fees12**
- Appendix 2 – Glossary.....13**

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.

The matters reported here are those that I consider are most significant for the Authority.

Key audit risk	My findings	Conclusion
Unqualified audit opinion	I issued an unqualified opinion on the Authority's financial statements on 7 September 2012.	●
Proper arrangements to secure value for money	I issued an unqualified VFM conclusion on the Authority's arrangements to secure value for money on 7 September 2012.	●

Audit opinion and financial statements

I provided an unqualified opinion on your financial statements, including the firefighters' pension fund, as I considered them to be true and fair, and presented without material misstatement.

The financial statements were produced ahead of the statutory deadline and earlier than many other local government bodies. There were two material misstatements which were amended for relating to the valuation of the St Michael Street Headquarters and Fire Station and the disclosure of a fair value for a PWLB loan. I also recommended some changes and additional disclosures to ensure compliance with the Code which were actioned.

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 Shropshire & Wrekin 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 challenges

The Authority is facing several challenges, both internally and externally, which it is preparing for.

Economic downturn and pressure on the public sector

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% and required an overall review of how best to deliver services in the longer term. Your Medium Term Corporate Plan presents a balanced budget for the next three financial years and has allowed the Authority to maintain its services delivery at current levels. 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 local impact of these is unknown at this time but the Fire Authority is already looking at potential scenarios and these are beginning to identify corporate and service risks now. The Authority is not currently expecting cuts above those currently planned for 2013/14 and if further reductions in income are forthcoming, requiring greater savings, it is expected they will impact on the level of service the Authority is able to provide. The Authority is beginning to identify actions to meet mitigate the identified risks in 2013 and has been making Ministers aware of the specific challenges it faces being responsible for safety in a rural and sparsely populated area which are not currently reflected by additional grant in the current formulae applied. It is uncertain whether changes to the way grant funding is allocated will be forthcoming but maintaining the current level of service within Shropshire will be a significant challenge if there are significant further reductions in income.

Income streams

There are a number of changes being introduced in 2013/14, which will affect the way, in which the Fire Authority is funded, and the levels of funding that will be received.

Capital Funding

For 2012/13 the Department will retain the current pro rata distribution method for capital funding (that is with a £500,000 base plus the percentage of population, excluding the Isles of Scilly). However, Ministers have determined that capital funding for the years 2013/14 and 2014/15 will be allocated based on a combination of:

- an efficiency fund administered as a capital grant via a bidding process, and
- a pro-rata distribution using current distribution method.

This enables fire and rescue authorities to make efficiency changes and demonstrate value for money. Once the bids are received they will be assessed and a panel will make recommendations to the Minister with the intention of announcing the

outcome in the autumn. However, this also poses particular risks for large, sparsely populated counties which you have factored in to your thinking.

Revenue Funding

The revenue grant allocated to Fire Authorities for 2012/13 has been confirmed. However, the detail around the settlements for 2013/14 and 2014/15 is still unknown and it is unlikely that any indications will be given until late 2012. Assumptions for later years continue to be based on the expectation that reductions in grant for fire services will be back loaded and will total around 27.5% over the four-year settlement period, with consolidation of the 2011/12 council tax freeze grant into the fourth year settlement with no further reduction.

Business Rates Retention

As part of the Local Government Resource Review, the current business rates system is being changed to facilitate the retention of business rates in local areas, which will enable Councils to retain growth in business rates. Fire authorities will be funded through a percentage share of each Council's billing authority business rate baseline, and will then be subject to a top up to bring them to their baseline funding level. Safety net proposals are proposed as well as a 1% fire and rescue rural sparsity adjustment. Although the top up will be subject to an inflationary increase, there will still be uncertainty around the way, in which the total funding pot is distributed, ie what would have been allocated in formula grant under the old funding mechanism.

Localisation of Council Tax Support

To deliver the commitment within the CSR in 2010, the Government intends that from April 2013, future support for Council Tax will be offered as reductions within the Council Tax system. This will localise Council Tax arrangements from 2013/14. Regulations will set the rules, allowances and awards for claimants of state pension age, so they do not experience a reduction in support as a direct result of the reform. Local authorities will have the freedom to design schemes for working age claimants, taking into account their responsibilities towards vulnerable groups and the importance of supporting incentives to work, reducing demand for support.

Funding, based on 90% of the forecast council tax benefit expenditure for 2012/13, will be available to billing and major precepting authorities. This funding will have the effect of reducing each authority's Council Tax requirement and will help to offset the reduction in council tax base as a result of the creation of new council tax reductions to be set out in local schemes.

To implement local Council Tax support schemes in April 2013, local authorities will need to be preparing their proposed schemes and embarking on consultation with major precepting authorities and their taxpayers. You are faced with uncertainty from both constituent authorities (Shropshire Council and Telford & Wrekin Council), as they create different schemes and make different decisions about how to close the 10% funding shortfall.

Medium Term Corporate Plan

The Medium Term Corporate Plan sets out a balanced budget for five financial years, however, the uncertainty of the revenue grant funding and other income streams provides uncertainties in the latter two years which you have built into your financial projections. You are planning to use reserves to smooth any volatility or fluctuations in the funding received against current estimates in the Medium Term Corporate Plan. The planned surpluses in years 1 – 3 will support this uncertainty, but in the mean time, the surpluses are being used to support investments in improving arrangements which will provide a payback from savings in the longer term. The Authority is also examining the delivery of core services within the projected income levels for 2015/16 onwards to assess whether services will need to be cut.

Joint arrangements

The Authority has close working relationships with Shropshire Council for financial and IT support and with Telford and Wrekin for legal support. There are service level agreements in place for many aspects including pension administration, valuer services and most recently for the provision of your Treasurer.

The Authority also has a strong strategic alliance with Hereford & Worcester 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 service delivery in some of the most rural parts of the counties.

National initiatives

In July 2012, the Government published the latest Fire and Rescue National Framework for England. The Framework marks a key milestone in resetting the relationship between fire and rescue authorities and Government. It looks to move away from prescription and enable fire and rescue authorities to deliver their services in a way that makes sense locally, while continuing to meet the wider needs of national resilience.

The priorities in the Framework are for fire and rescue authorities to:

- identify and assess the full range of foreseeable fire and rescue related risks their area faces, make provision for prevention and protection activities and to respond to incidents appropriately;
- work in partnership with their communities and a wide range of partners locally and nationally to deliver their service; and
- be accountable to communities for the service they provide.

The Authority is already well placed to address these issues through its new range of Performance Indicators and established ways of consulting with local communities. However, it will need to review the impact of these requirements on its financial position going forward.

Financial statements and annual governance statement

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

I issued an unqualified opinion on the financial statements. The accounts contained two material misstatements which management amended for relating to the valuation of the St Michael Street Headquarters and Fire Station and the disclosure of the fair value of a PWLB loan. I recommended some changes and additional disclosures to ensure compliance with the Code which were made by management. The conclusions from my audit of the Authority's 2011/12 financial statements are included in my Annual Governance Report which was presented to the Audit & Performance Management Committee on 6 September 2012.

The governance framework

I did not identify any significant weaknesses in your internal control arrangements. Overall you have adequate arrangements in place for securing internal control.

The Authority makes an annual governance statement within its financial statements in line with the 'Delivering Good Governance in Local Government' guidance. I reviewed the issues you raised as significant governance issues and consider that they are consistent with my understanding of the Authority. I have also reviewed the Authority's risk management arrangements and consider these to be adequate.

I consider that the key areas for action in 2012/13 are as follows.

- Financial planning to take account of likely changes to funding streams, in terms of business rates retention and localisation of council tax support, as a result of new legislation.
- Consideration of Public Value and the 2020 Strategy to consider how the Service is structured and meets the challenge of further budget settlements.
- Embedding the Command and Control system to suit the needs of the Service and the Community.

- Monitoring key areas of the Service Transformation Programme including the implementation of a number of systems (Human Resources, Performance Management and Information Management Review). The programme will aid in embedding and supporting appropriate systems to ensure the most efficient use of resources.
- Assuring and Improving IT resilience for the shadow site at Telford Central when installation is complete, with regard to resilience offered by the partnering with Hereford and Worcester Fire and Rescue Service. This will include the provision of secure Business Continuity information, accessible at all times to appropriate managers.

Financial resilience

Before issuing my opinion, I consider whether the Authority has sound financial resilience to ensure that it can continue operating for the foreseeable future. In February 2011, the Authority set a revenue budget of £21.036 million for 2011/12. During the financial year, the Authority approved transfers to reserves of £0.226 million and then a further £1.185 million at the financial year end. This equates to an underspend of £1.411 million. Some of this represents savings, but some is a result of expenditure which has slipped. This will therefore be held in the General Fund reserve and transferred back into the revenue account as and when the expenditure is incurred. The Authority continues to prudently set aside monies for commitments it has in future years in line with the Medium Term Corporate Plan.

You have undertaken a robust budget setting process which has enabled you to agree a balanced budget for the next three financial years, supported by the planned use of some reserves. This reflects the savings which are required following the cuts to government funding from 2011/12 onwards. On this basis I am satisfied that your financial resilience is sound.

Whole Government Accounts

The Whole of Government Accounts (WGA) exercise covers approximately 1300 separate bodies. This aims to provide a commercial style set of accounts for the public sector and are prepared by the Treasury. To support these accounts you are required to submit a consolidation pack which summarises the Authority's financial statements in a consistent way with all other public sector bodies. This enables transactions between the various bodies to be identified so they are not double counted within the final set of Government Accounts. I submitted a short form assurance statement confirming that it was consistent with your audited financial statements on 7 September 2012.

National Fraud Initiative

The Authority participates in the National Fraud Initiative (NFI). This is a national, biennial exercise that matches electronic data within the and between audited bodies to prevent and detect fraud, including police authorities, local probation boards, fire and rescue authorities as well as local councils.

I reviewed the Authority's progress in relation to investigating the matches identified and found that adequate progress had been made. The Authority has addressed the matches presenting the highest risk of fraud and has worked through the remaining matches. There were no material frauds identified.

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	Key messages
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2011/12: 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.	Financial Governance There remains appropriate capacity at a senior level to provide strong leadership to the Authority. The leadership team has a sound understanding of the current financial environment and undertakes robust planning for the medium and long term. The Authority has demonstrated prudence in investing early surpluses to reap savings in future, less financially certain years. There is a strong link between the Corporate Plan and Integrated Risk Management Plan which is communicated to all employees through visits by members of the leadership team to each fire station. Financial Planning The Authority has a detailed Medium Term Financial Plan in place which has undergone scenario planning for uncertain aspects, eg future grant funding and other key sources of income. There is a culture of recognising liabilities as soon as known to ensure that reserves are sufficient to meet future expenditure.

Criterion	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 2011/12:</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>Financial control</p> <p>Budgets are generally not exceeded with expenditure being controlled well. 2011/12 saw further underspends, as planned, which the Authority has moved to reserves to either support expenditure which had slipped for various reasons or provide financial support for future spend or uncertainties, as detailed in the reserves report to the Fire Authority. This is not at a level which indicates weaknesses in financial control.</p> <hr/> <p>Prioritising resources</p> <p>Senior team provides clear leadership on spending priorities and demonstrates a hands on approach to understanding the latest resource requirements of the job.</p> <p>The Fire Authority has adopted a formal process of public value review through the Strategic Risk and Planning Group (STRaP) which is intended to deal with major changes to the way the service is delivered and whether existing services are considered a priority by the public.</p> <p>Performance management is strong and appropriately challenged by the Audit and Performance Management Committee, considering a range of indicators covering financial, service delivery and performance aspects.</p> <p>Appropriate cost benefit analysis has always been undertaken with many back office services being outsourced already.</p> <p>There is a good track record of working in partnership, both within the local County area and also with neighbouring Fire & Rescue Authorities.</p> <p>Improving efficiency and productivity</p> <p>The Authority understands its unit costs and has explanations for any outliers. Efficiencies are made where possible, but some higher unit costs are accepted due to having to provide services to a rural area with a relatively low population. No station closures or reductions in services are currently planned.</p> <p>The Authority are moving towards closer working relationships with Hereford & Worcester FRA to gain efficiencies where possible and improve services provided to those living at the boundaries. This process also challenges the overall service delivery and seeks to make improvements wherever possible.</p>

Closing remarks

I have discussed and agreed this letter with the Chief Fire Officer and the Head of Finance. I am hoping to present this letter at the Audit & Performance Management Committee on 22 November 2012 and copies will be available to all 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
Opinion audit testing strategy	February 2012
Report to those charged with governance – Annual Governance Report	July 2012
Opinion on the financial statements	September 2012
Value for money conclusion	September 2012
Annual Audit Letter	October 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
October 2012

Appendix 1 – Fees

I reported my planned audit fee in the February 2012 Audit Plan. The table below sets out the scale, proposed and the actual final fees for your 2011/12 audit. I will complete the audit within the planned fee. No non-audit work was delivered by the Audit Commission Audit Practice in 2011/12.

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	£63,480	£63,480	£63,480
Non-audit work		£0	£0
Total		£63,480	£63,480

The Audit Commission has paid a rebate of £5,078 (8 per cent) to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £58,402.

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 is effective from 1 September 2012 and will cover the 2012/13 audit year onwards. All staff currently employed by the Audit Commission on the audit of the Authority 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 per cent to around £38,088 for 2012/13 based on scale fee information published by the Audit Commission.

Appendix 2 – Glossary

Annual Governance Report

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

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.

Code (the)

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

Impairment

A transaction to reduce the reported value of an asset (usually a non-current asset) that is worth less on the market than the value reported on the Balance Sheet. This results in a write-down of that asset to the stated market price.

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 financial 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 financial 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 financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

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.

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 financial statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.

