

# External Audit Statement of Audit Progress

Shropshire & Wrekin Fire  
and Rescue Authority

Audit 2010/11

March 2011



---

# Contents

<b>Audit update</b>	<b>3</b>
<b>Other matters of interest</b>	<b>4</b>
<b>Key Considerations</b>	<b>10</b>
<b>Appendix 1 – 2010/11 Programme</b>	<b>11</b>

---

## **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.
-

# Audit update

---

## Introduction

1 The purpose of this paper is to provide the Audit & Managing Performance Committee with a report on progress in delivering our responsibilities as the Authority's external auditor. This update also seeks to highlight key emerging national issues and developments which may be of interest to members of the Committee.

2 At the end of this update there are a number of questions which the Audit & Managing Performance Committee may wish to consider in order to ensure that it has received sufficient assurance on the emerging issues.

---

## Audit coverage and inputs

### Planning for 2010/11

3 We discussed the Audit Fee with the Chief Fire Officer in April 2010. There have been several changes to the audit requirements and environment within which the Audit Commission and the Authority operate and the continued downturn in the economic climate continues to impact on the work we are required to undertake. On this basis, we have communicated the revised fee to the Chair of the Audit & Managing Performance Committee in the form of a letter which is presented to this Committee meeting for information.

4 We revisit our planning throughout the financial year to assess what the key risks to the opinion and new VFM conclusion may be. There are no changes to the risks we consider are facing your Authority.

5 We have also prepared our audit opinion testing strategy which sets out the approach we propose to take in gaining assurance over your financial statements. This strategy is similar to that adopted in 2009/10 and has been agreed with the Treasurer. We have undertaken work on your key financial systems and at this stage consider your control environment to be sound.

---

## Working with Internal Audit

6 We continue to work with Internal Audit during 2010/11 and are aiming to place reliance on their work wherever possible. We have arranged a meeting with the Head of Internal Audit to agree the coverage of our work to ensure that there is no duplication or inefficiencies in the work programmes. This should reduce the regulatory burden on the Authority, particularly finance staff.

---

## Conclusion

7 We are on target to deliver the audit plan for 2010/11 as set out in Appendix 1.

---

---

# Other matters of interest

---

## National Reports

8 There have been no National Reports released since the last Audit & Managing Performance Committee.

---

## Other information

### Local Government Finance Settlement 2011/12

9 On 13 December 2010 the Government published proposals for:

- the amount of Revenue Support,
- the amount of the grant to be paid to receiving authorities, and
- the amount of the grant to be paid to the specified body and the distributable amount for 2011/12.

10 Most Local Government bodies have received reductions in their funding and many have been allocated less than expected in the initial budget plans. Therefore, local government bodies are required to now revisit their budget assumptions for 2011/12 and find further savings to deliver services within their allocation.

### Changes to the International Standards on Auditing (ISAs)

11 The audit of your financial statements is governed by a framework established by International Standards on Auditing (ISAs). These set out the basic principles and essential procedures which govern my work.

12 As with all guidance and frameworks, auditing standards are frequently revised and updated, often in a piecemeal fashion. However, in 2009 the auditing profession completed a comprehensive project to enhance the clarity of all of the ISAs. This is known as the Clarity Project.

13 One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within the existing ISAs and improving their overall readability and understandability.

14 The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way the audit team delivers your audit and the information they request from you. The main changes you will see are as follows.

### Journals

15 We will be required to review all material year-end adjustment journals. We can do this by using IT interrogation tools, depending on the compatibility of your general ledger software.

## Other matters of interest

### Related Party Transactions

**16** We are required to review your procedures for identifying related party transactions and to obtain an understanding of the controls that you have established to identify such transactions. We will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in your financial statements are complete and accurate.

### Accounting Estimates

**17** We will be required to look at your accounting estimates in detail. As part of the audit we will request a list of these from you. We will need to know in particular:

- the process you use to make your accounting estimates and the controls you have put in place;
- whether you use an expert to assist you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the level of uncertainty arising because the estimate cannot be precise or exact) ; and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

### Deficiencies in internal control

**18** A new standard (ISA 265) has been introduced relating to how we must communicate deficiencies in Internal Control to 'those charged with governance' and the Council's management.

**19** If we identify a deficiency in any of your internal controls during the audit, we will undertake further audit testing to decide whether the deficiency is significant. If we decide the deficiency is significant, we will report it in writing to your Audit Committee as 'those charged with governance'.

### Impact on Audit Fees

**20** It is likely that these changes to the auditing standards will increase the audit procedures that we will need to carry out. However, as previously advised, the Audit Commission will use its own efficiency savings to absorb the cost of any additional requirements.

### Fire and Rescue Control Services in England

**21** On 13 January 2011 the Government published a consultation on the future of fire and rescue control services in England. This follows the closure of the FiReControl project, announced in the statement by Bob Neill on 20 December 2010.

**22** Local fire and rescue authorities have a statutory duty to answer emergency calls and mobilise resources. They have continued to fulfil this duty and been funded to do so, during the lifetime of the project and, consequently, the closure of the project poses no risk to public safety.

**23** This Government believes that the fire and rescue community is best placed to decide the future of their control services. No solution will be imposed. The consultation reviews the legacy assets from the project, as well as lessons learnt, and encourages the sector to make best use of these in their future plans, for the benefit of both the taxpayer and local communities.

**24** The consultation discusses whether the original aims of the project - improving efficiency, national resilience and the technology available to fire and rescue services - are still valid and, if so, how they might be achieved now. It also considers the principles on which available funding should be distributed. The role of central government, if any, is also considered.

**25** A copy of the consultation document is available on the Department for Communities and Local Government website. Copies have been placed in the Libraries of both Houses. Responses are requested by 8 April 2011.

### **Publication of research projects for Fire**

**26** On 9 February 2011 the Government published a group of reports presenting the findings from research projects commissioned by the previous administration. There is a significant backlog of unpublished reports that were produced by the previous Government which will be published over the next few months in groups themed on a particular topic. The five reports published are as follows:

#### **Cost of Fire**

(i) The Economic Cost of Fire: Estimates for 2006 - This report provides an estimate of the cost of fire to the economy in England in 2006.

(ii) The Economic Cost of Fire: Estimates for 2008 - This report was produced by DCLG researchers. The spreadsheet model developed for the 2006 estimates was used to update the cost of fire estimates to 2008.

#### **Retained Duty System**

(iii) Survey of Retained Duty System (RDS) personnel, former staff and FRS managers- Part A-A survey of serving and former RDS personnel. This is the first part of a report providing findings of a survey of serving and former RDS personnel in England, Scotland and Northern Ireland.

(iv) A Survey of Retained Duty System (RDS) personnel, former staff and FRS managers - Part B - A survey of RDS managers. This is the second part of the report and provides the findings of an organisational survey completed by RDS managers from fire and rescue services in England, Scotland and Northern Ireland.

#### **Fire Service Emergency Cover (FSEC) major incidents risk assessment module**

(v) FSEC major incidents risk assessment module: background research - This report details the work carried out to specify a method of assessing the risk from different types of major incident in a way that could be incorporated into the FSEC toolkit software and to provide suitable risk factors based on data available at the time of the work.

## Other matters of interest

27 These reports and findings are of general policy interest, but do not relate to forthcoming policy announcements and are not a reflection of the current Government's policies and priorities. DCLG is publishing these reports in the interests of transparency.

28 Copies of these reports are available on the DCLG website. Copies have been placed in the Library of the House.

### Looking Ahead

29 We have previously advised you of the proposal of the Secretary of State for Communities and Local Government (CLG) to abolish the Audit Commission.

30 The proposed abolition will be from 2012/13 at the earliest and is subject to the passage of legislation. Ministers have said that the Commission's Audit Practice, which includes the Trust Practice, is to be transferred to the private sector.

31 This represents an exciting opportunity for us. We are already exploring a number of potential options, including mutualisation as an employee owned partnership. We anticipate the proposed move to the private sector, independent of Government, will provide us with a groundbreaking opportunity to continue to thrive and develop our practice. Throughout this process we will remain committed to providing excellent service to our clients.

32 To assist Ministers as they consider the options for transferring the practice to the private sector, we are developing plans to form a mutual business. Neil Childs, Director of Audit and Head of the Trust Practice, says: "Mutualisation would enable us to continue to offer you a distinctive alternative to the big firms. We will continue to provide you with unrivalled expertise in public audit and advisory services, focused on the challenges you face, at competitive fees".

33 We expect Ministers to make a decision in principle over the exact form of the transfer of the audit practice to the private sector early in 2011.

### 2011/12 Audit Fees

34 The Audit Commission began the consultation on the proposed work programmes and scales of fees for 2011/12 on 10 December 2010. This is significantly later than planned as, in setting scales of fees for 2011/12, the Audit Commission Board has had to agree with the Department for Communities and Local Government (CLG) how any costs associated with the proposed abolition the Audit Commission would be funded.

35 CLG has provided assurances to the Audit Commission's Board that it will meet any liabilities which cannot be met from the Audit Commission's own reserves. CLG is also working with the Audit Commission to develop the best option for the future of the Audit Commission's pension scheme, which protects members' accrued rights and delivers best value for taxpayers, whilst avoiding potential liabilities being crystallised.

36 Based on these assurances, the Audit Commission believes it does not need to provide for these costs in setting the audit fees for 2011/12. The proposed work programmes and scales of fees for 2011/12 therefore reflect the Audit Commission's original three year programme to deliver cost cuts of about £70 million (or 30 per cent) and lower fees from 2011/12.

37 The proposals for 2011/12 are for further reductions in total audit fees as follows:

- no inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rates for certifying claims and returns;
- a reduction in scale fees resulting from our new approach to local VFM audit work of 2 to 20 per cent; and
- a reduction in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower ongoing audit costs after implementing IFRS.

**38** The cumulative effect of these changes is to reduce audit and inspection fees for local government bodies in 2011/12 by a further £7.6 million (or 9 per cent).

**39** For 2011/12, the Audit Commission is proposing to specify the scale fee for each individual audited body, rather than providing a scale fee with fixed and variable elements. We will base the scale fee on the proposed 2010/11 fee, adjusted for the proposals summarised above. This will increase transparency and ensure planned reductions are delivered on the ground.

**40** The Commission can approve proposed variations to the scale fee, to reflect changes in circumstances, before or at the completion of the 2011/12 audit.

**41** In the light of the Secretary of State's announcement regarding the proposed abolition of the Audit Commission, we cannot say anything at this stage about audit fees beyond 2011/12.

---

### 2011 Final Accounts Workshops

**42** The Audit Commission has run a series of final accounts workshops, including sector specific workshops for Fire Authorities. These are free of charge for Audit Commission clients. Your Authority was represented at the London workshop and had the opportunity to recap on the issues that, nationally, proved problematic in 2009/10 and to also focus on any changes for next year, well in advance of the accounts submission date. The advance of sector specific workshops is that they support networking opportunities and to enable practical solutions to the emerging issues to be developed.

---

### Challenges Faced By Audit Committees

**43** On 18 November 2010 the Financial Reporting Council (FRC) published a report highlighting the latest challenges faced by Audit Committees. Although the report is mainly aimed at the private sector, there are also some important messages for Councils.

**44** The FRC reports that many large companies have been able to access conventional debt markets and are hoarding cash. There continues to be regular reports of funding difficulties towards the middle and smaller end of the market and the FRC stresses the importance of forecasting cash flows accurately.

**45** Recent studies by the FRC have identified room for improvement in the approach to risk management. Commentators observe that some companies present a list of all possible risks rather than those that might be regarded as "principal risks".



## Other matters of interest

46 Work by the FRC has also identified that it is not always clear whether risks and uncertainties have been fully evaluated and taken into account in preparing budgets and forecasts.

47 Earlier, we updated you on our approach to accounting estimates and the role of the Audit Committee is covered by the FRC's report. It states that Audit Committees are likely to want to be convinced that key judgments are supported by a more rigorous and robust analysis than in more benign circumstances.

48 The FRC's paper, which can be found on its website, ends with a series of questions that Audit Committees may find it helpful to review themselves against.

# Key Considerations

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

- Has the Authority set its 2011/12 budget in line with the allocations from Central Government and other income assumptions?
- Has the Authority responded to the consultation on the future of fire and rescue control services in England?
- Is the Authority aware of the research published on the CLG website in relation to the cost of fire, retained duty system and Fire Service Emergency Cover (FSEC) major incidents risk assessment module?
- Has the Audit & Managing Performance Committee considered the recent report by the Financial Reporting Council on challenges they are facing?

**Emily Mayne**  
Audit Manager

March 2011

# Appendix 1 – 2010/11 Programme

Programme	Progress	Main Conclusion / Findings	Deadline for draft report	Audit Committee meeting
<b>Audit Plan</b>				
Initial Fee Letter 2010/11	Now reported to the Chair of Audit Committee	The indicative fee was agreed by the Chief Fire Officer in April 2010.	February 2011	March 2011
Audit Opinion Plan 2010/11	Completed	This has been agreed with the Treasurer.	February 2011	March 2011
<b>Opinion</b>				
Interim work on arrangements to support the opinion	In progress	Initial work has been undertaken on your key financial systems. No significant weaknesses identified to date.	Report through Statements of Audit Progress	N/A
Annual Governance Report	Not started		September 2011	September 2011

Programme	Progress	Main Conclusions / Findings	Deadline for draft report	Audit Committee meeting
<b>VFM conclusion</b>				
Assessment of the Council's performance against the Value for Money criteria informing the VFM conclusion	In progress	Initial planning work has been started to inform the risk assessment. This work will be progressed in March 2011. No significant issues have been identified to date.	September 2011	September 2011
<b>Annual Audit Letter</b>				
Annual Audit Letter 2010/11	Not started		October 2011	November 2011

---

# 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, auditing the £200 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.

---

## Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2009

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

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

---