

28 February 2011

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Chair of Audit & Managing Performance Committee
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Dear Dr Jones,

Annual audit and inspection fee 2010/11

The new ISAs require me to communicate with 'Those Charged with Governance' in a timely and two way fashion. Therefore, I write to you, the Audit & Managing Performance Committee, to inform you of the position in respect of the 2010/11 audit fee.

In April 2010 I undertook my initial planning and discussed an audit fee with the Chief Fire Officer, Paul Raymond and Keith Dixon, Treasurer. However, since then, there have been significant changes including a change of Government and the proposed abolition of the Audit Commission. This placed uncertainty over the level of work required to deliver my work for 2010/11. I agreed with the Chief Fire Officer and other senior officers that when the requirements for my work for 2010/11 had been confirmed I would agree any changes to the audit fee with the Treasurer and report the final audit fee to the Audit & Governance Committee.

The Code of Audit Practice (the Code) requires auditors to issue:

- an opinion on the financial statements as to whether they give a true and fair view, and
- a conclusion on whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, known as the value for money (VFM) conclusion.

The Audit Commission has now published new requirements for local VFM audit work at those bodies where auditors were previously required to give a use of resources assessment. This requires me to consider two specific reporting criteria as set out below:

- The Authority has proper arrangements in place for securing financial resilience.
 - The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- The Authority has proper arrangements for challenging how it secures economy, efficiency and effectiveness.
 - The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

I use a risk-based approach to audit planning as set out in the Code of Audit Practice. I have assessed the specific risks at your Authority and consider that they remain at a 'medium' level. For each risk, I consider the arrangements put in place by the Authority to mitigate the risk, and plan my work accordingly. The key risks I have identified are set out in Table 1.

Table 1 – Risk assessment for Shropshire and Wrekin Fire and Rescue Authority

Risk	Planned work	Timing of work
<p>Opinion risk</p> <p>The financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. The requirement to now report under the International Financial Reporting Standards presents risks for the Authority.</p>	<p>I will review the opening balances, restated under IFRS, as a specific audit procedure prior to the main 2010/11 audit. I will also work with the finance department on any other changes to disclosure for 2010/11 and liaise with relevant finance staff to ensure that key decisions that result in significant changes are discussed in advance. I will bring forward any substantive testing I can to ease pressure on your finance department at their busiest time.</p>	<p>January 2011 – September 2011</p>
<p>Regional Control Centre</p> <p>Recent Government announcements mean the Regional Control Centre will not go ahead. Fire & Rescue Authorities are being consulted on the use of the asset going forward and at this time it remains unclear how the relationship needs to be disclosed in the financial statements.</p>	<p>I will review the Authority's disclosures in relation to the Regional Control Centre and consider the impact of this on potential accounting entries within the financial statements.</p>	<p>January 2011 – September 2011</p>
<p>Financial resilience</p> <p>Strong financial planning is crucial for the Authority to continue delivering its core services whilst improving customer service and the overall use of resources available. The announcement in the Comprehensive Spending Review was marginally less than you had been planning for with pressure falling on the later years as expected. Planning for reductions in the early years is therefore crucial to delivering the savings required which will have an impact on services in the immediate future.</p>	<p>I will review the medium term financial plans and the 2011/12 budgets to ensure that the Authority has taken appropriate account of their current financial position, the level of income from Central Government and that the plans are supported by detailed and robust assumptions. I will review the process for the monitoring and reporting of your savings plans. I will also continue to review and discuss the financial position for the year. The year end testing will focus on key estimations around debtor and creditor balances.</p>	<p>November 2010 – August 2011</p>

The Audit Commission has published its work programme and scales of fees for 2010/11. The Audit Commission scale audit fee for Shropshire and Wrekin Fire and Rescue Authority is £68,575 (excl VAT). The fee proposed for 2010/11 was practically in line with the scale fee at £69,000 (excl VAT), reflecting the level of risk identified at the Authority. This is consistent with last year and is within the normal level of variation specified by the Commission. This fee was initially discussed with the Chief Fire Officer in April 2010.

However, the audit fee payable by the Authority has subsequently been reduced. The fee you will be required to pay for my delivery of your opinion, VFM conclusion and the duties I have in relation to the whole of government accounts (WGA), is estimated to be **£63,909 (excl VAT)**. This is a reduction on the initial fee proposed due to the following factors:

- In July 2009, in recognition of the financial pressures that public bodies are facing in the current economic climate, the Commission confirmed that it would subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards (IFRS) for local authorities and police and fire and rescue authorities from 2010/11. You therefore received a refund from the Audit Commission of £4,062 in April 2010.
- The Commission proposes to carry through its existing, pre-August 2010, plans for fees that were part of a three-year programme to deliver cost cuts of about £70 million. In relation to 2010/11 fees, the Commission will rebate 1.5 per cent of the 2010/11 scale fee for district councils, police and fire and rescue authorities. You will therefore receive a refund from the Audit Commission of £1,029 in relation to this financial year.
- The Commission will also not charge inspection fees for work already carried out in this financial year on the managing performance part of the organisational effectiveness assessment.

This revised fee compares with a fee of £65,300 (excl VAT) for 2009/10. A summary of this is shown in Table 2 below. The reduction supports the Audit Commission's aim to reduce the regulatory costs to audited bodies in 2010/11.

Table 2 – Comparison of audit fee 2010/11

Audit area	Revised fee 2010/11	Actual fee 2009/10
Opinion work (including VfM conclusion and WGA)	£63,909	£65,300

A separate opinion plan setting out my audit strategy for the audit for the financial statements will be issued to the March 2011 Audit & Managing Performance Committee. This will detail the risks identified, planned audit procedures and any changes in fee if required. If I need to make any significant amendments to the audit fee during the course of this plan, I will first discuss this with the Treasurer and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit & Managing Performance Committee.

The above fee excludes any work I might be required to undertake as a result of questions or objections asked by members of the public as part of my broader audit role under the Audit Commission Act. As your appointed auditor, I have the ability to undertake work outside the Code using the Audit Commission's advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you. There are no plans at this stage to undertake any work of this nature.

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1. The key members of the audit team for the 2010/11 are:

- Grant Patterson, District Auditor 0844 798 7816
- Emily Mayne, Audit Manager 07976 315713
- Nigel Meredith, Team Leader 0844 798 4906

I am committed to providing you with a high quality service. If you are any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Gill Eastwood, Director of Audit for the audit practice (c-westwood@audit-commission.gov.uk).

Yours sincerely

Grant Patterson
District Auditor

Cc Emily Mayne, Audit Manger
Mr K. Dixon, Treasurer

Appendix 1: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit and Managing Performance Committee.

Table 1

Planned output	Indicative date
Audit strategy	March 2011
Annual governance report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Annual audit letter	November 2011