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External Audit

Statement of

Audit Progress

Shropshire & Wrekin Fire and Rescue Authority

Audit 2010/11

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Audit update

Introduction

1 The purpose of this paper is to provide the Audit & Performance Management 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 & Performance Management Committee may wish to consider in order to ensure that it has received sufficient assurance on the emerging issues.

Audit coverage and inputs

Opinion Audit for 2010/11

3 We continue to revisit our planning throughout the financial year to update our assessment of the key risks to the opinion and VFM conclusion. We have updated our understanding of the financial environment and the impact on your overall financial resilience. We have also kept abreast of developments within the directions from DCLG in relation to Fire & Rescue and there are no changes to the risks we consider are facing your Authority.

4 We have continued to deliver our work against the audit opinion testing strategy and there are no significant changes to this programme of work. We have completed our review of your key financial systems and have placed reliance upon the majority of controls in line with our expectations. There are no significant areas of weakness identified within your controls which I am required to bring to your attention.

5 Our testing did identify some weaknesses where we are required to undertake further substantive testing to gain full assurance. These are documented below and have been agreed with Officers. This has marginally changed our initial testing approach.

Sales Ledger

6 Our walk-through of your sales ledger system identified that two key controls we had identified were not working as we expected. These were:

- invoice requests are received by the Finance Assistant and checked for appropriateness, and
- the invoices are checked for correctness by the Finance Assistant.

7 The sales ledger is only material in 2010/11 due to the level of salary recharge invoices for the Fire Control Room Project. Therefore, with the size and volume of transactions present, it is more efficient to substantively test where these controls have failed. The Authority should note the control weakness and review the level of invoices raised in 2011/12 to assess the appropriate action, commensurate to the value of invoices raised.

Purchase Ledger

8 Authorisation of invoices. This check confirms accuracy of values and ledger codes and that the goods or services have been received. We also test for separation of authorisation between goods received and passing for payment as well as authorisation in line with delegated authority limits.

9 This control operated as expected in the walk-through. However, our testing of 20 invoices identified that six invoices were authorised by the same person for goods/services received and passing for payment. There was also one invoice which was authorised beyond the delegated limits of the authoriser.

10 We will undertake further substantive testing to ensure that this weakness in authorisation has not allowed any material misstatement against the assertions, e.g. occurrence, accuracy and completeness.

Payroll

11 We were not able to identify any controls operating at the Authority which provide assurance over cut-off of payroll costs. There are controls in place at the County through the reconciliation of control accounts which support the cut-off assertion. We will test these as part of our year end audit work. However, the Authority should be aware that this control is supported by a third party and assure itself that it has sufficient assurance of this control internally.

12 We have also identified that the annual verification of the establishment list by department managers supports the assertions; occurrence, completeness, accuracy and classification. This control is undertaken at year end. In 2009/10 this control was not found to be operating appropriately and so if this is found to be the case in 2010/11 we will have to undertake substantive testing. We will report on this once we have completed our review of the Authority's processes.

Planning for 2011/12

13 We have completed the initial planning of the 2011/12 audit. This has involved meeting with key senior officers to assess the risk presenting themselves at this time, review of Authority minutes and other key documents and consideration of the wider fire sector issues. We have confirmed the level of work required to deliver your opinion and VFM conclusion and can confirm that the fee has been set at £63,480 (excl VAT). This is in line with Audit Commission guidance.

14 We have met with the Authority to discuss this initial fee and they have raised their concerns around the level of fee directly with the Audit Commission. There are updates from the Authority to the Committee on this matter.

Working with Internal Audit

15 We continue to work with Internal Audit and have met on two occasions since the last Audit & Performance Management Committee. These meetings have been extremely useful and we have spent time discussing both our approaches to identify any areas where our work overlaps or could be further dovetailed.

16 We have reviewed work from Internal Audit to support our 2010/11 opinion and VFM conclusion. We have identified areas where we plan to place reliance on Internal Audit's work in 2011/12 and their programme of work has been agreed by the Audit & Performance Management Committee and Treasurer. Once it has been finalised with the Treasurer. Within this changing environment, the current year of their wider strategy is agreed annually, which ensures that the Authority is receiving the appropriate work focused on risk areas. The Audit Service Manager is aware of our approach and continues, with us, to ensure that duplication between Internal and External Audit is minimised and there are efficiencies within both work programmes. This should reduce the regulatory burden on the Authority, particularly finance staff. We will continue to liaise on a regular basis to ensure that this approach is maintained on an on-going basis.

Conclusion

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

Other matters of interest

National Reports

18 There have been no National Reports relating to Fire & Rescue released since the last Audit & Performance Management Committee.

Other information

Fire Futures

19 On the 12 April 2011, the Government published its response to the Fire Futures Review which was consulted on from January to April 2011. This publication has provided a clear statement of the principles which are central to the future of fire and rescue services.

<http://www.communities.gov.uk/publications/fire/firefuturesresponse>

20 The Government is responsible for:

- enabling and empowering the service, and
- ensuring appropriate funding to deliver reform,

21 The Fire Authority:

- is responsible for making local decisions on local services and
- is accountable to local people through locally agreed targets and milestones.

22 The Fire Futures Reports also provide an ideas bank and for many of these ideas the next steps will be for the sector to determine and take forward as appropriate. The Government will also shortly begin to develop and consult with the sector on a new National Framework to be in place for 2012.

Payment of the Fire Revenue Grant and Fire Capital Grant

23 Ministers have decided that capital funding for 2011/12 will be allocated via a pro-rata method relating to population figures. Every Authority will receive a £500,000 baseline payment with the remaining grant allocated according to their population. Funding will be made through a Section 31 grant payment made to each Authority. [Payments for the 2010/11 funding were made around 21 April 2011].

24 The method of allocation for capital for years 2012-2015 is currently under review. Ministers are considering a number of options including a fund administered via a bidding process. Consultation is expected on this matter.

25 Monthly payments of the 2011/12 Fire Revenue Grant are expected to start being made soon. The Grant covers funding for New Dimension and Firelink. The Firelink funding will be reduced to reflect changes to the inflation rate and reduced Airwave service fees. It is expected that further funding will be made available subsequently in light of the responses to the recent consultation on future control room arrangements.

<http://www.communities.gov.uk/publications/fire/fsc202010>

Publication of the Future of Local Public Audit consultation document

26 Following the announcement on 13 August 2010 for plans to disband the Audit Commission, the Government recently published a consultation paper which sets out proposals for the future framework for audit of local public bodies, including Fire and Rescue Authorities. The consultation can be found at <http://www.communities.gov.uk/publications/localgovernment/localpublicauditconsult> or by searching on the DCLG website.

27 The intention is to replace the current, centralised audit systems managed by the Audit Commission, with a new decentralised regime, which will support local democratic accountability, cut bureaucracy and costs, while ensuring there continues to be robust local public audit. This consultation sets out proposals on the new audit framework where:

- audit quality is regulated within a statutory framework, overseen by the National Audit Office and the accountancy profession
- local public bodies will be free to appoint their own external auditors with stringent safeguards for independence.

28 The consultation will run until 30 June 2011. Responses can be sent to foia@communities.gsi.gov.uk.

Key considerations

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

- Has the Authority taken the Fire Futures document into account when setting its future strategic direction?
- Has the Authority reflected its revenue and capital funding as announced in April 2011 into account when reporting its current financial position?
- Has the Authority responded to the consultation on local public audit which closes on 30 June 2011?

Emily Mayne
Audit Manager

June 2011

Appendix 1 2010/11 programme

| Programme | Progress | Main Conclusion/Findings | Deadline for draft report | Audit Committee meeting |
|---|--|--|---|-------------------------|
| Audit Plan | | | | |
| 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 |
| Opinion | | | | |
| Interim work on arrangements to support the opinion | Completed | Initial work has been undertaken on your key financial systems. No significant weaknesses identified to date but control weaknesses have been reported to Those Charged with Governance. | Report through Statements of Audit Progress | N/A |
| Annual Governance Report | Not started | | September 2011 | September 2011 |
| VFM conclusion | | | | |
| 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 f 2011. No significant issues have been identified to date. | September 2011 | September 2011 |
| Annual Audit Letter | | | | |
| Annual Audit Letter 2010/11 | Not started | | October 2011 | November 2011 |

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