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# External Audit

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# Statement of

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# Audit Progress

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Shropshire and Wrekin Fire and Rescue Authority

September 2011

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 and 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 and 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 and Rescue and there are no changes to the risks we consider are facing your Authority. This informs the 2010/11 opinion and the 2011/12 planning work.

**4** We delivered our work in line with our audit opinion testing strategy and placed reliance upon controls in line with our expectations. There were no significant areas of weakness identified within your controls which I am required to bring to your attention.

**5** We reported some control weaknesses in the operation of the sales ledger, purchase ledger and payroll to the Audit and Performance Management Committee in June. We have undertaken substantive testing to support our overall assurance for these systems.

### Fraud risk assessment

**6** We have assessed the overall risk of fraud at the Authority as low. This is supported by a number of sources of evidence including discussions with Senior Officers. However, we are required to confirm with 'those charged with governance' what their assessment of the control environment for fraud is to support our overall conclusions.

**7** We have prepared a series of questions in appendix 2 and ask members to provide their responses to us.

## **IT Risk Assessment**

**8** To support our overall understanding of your control environment, we commissioned a trained IT Auditor to undertake a review of your processes and the controls in place.

**9** This review was complex due to the Authority facing the greatest overhaul of its ICT infrastructure with the move across to the new Head Quarters building and a new command and control system. The work undertaken identified that there was a low risk of material misstatement due to IT weaknesses. This was supported by work at the County which hosts many of your IT services.

**10** We did identify areas where IT arrangements could be strengthened but we have been provided with assurances that this will happen once the move to the new Head Quarters is complete. At that point, the ICT department will have the capacity to refresh policies and procedures which are due to be reviewed. The IT Strategy is currently under review along with the Policies and Procedures document and the IT Security Policy.

**11** We have agreed to work with the Authority in 2011/12 to ensure that any issues from our 2010/11 will be revisited and at this point we will report any improvement issues.

## **Working with Internal Audit**

**12** We continue to work with Internal Audit and liaised briefly since the last meeting. We have obtained information from Internal Audit which supports our conclusions for your VFM conclusion.

## **Conclusion**

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

# Other matters of interest

## National Reports

**14** There have been no National Reports relating to Fire and Rescue released since the last Audit and Managing Performance Committee.

## Other information

### Update on the Audit Commission

**15** We have previously advised you of the proposal of the Secretary of State for Communities and Local Government (CLG) to abolish the Audit Commission. The proposed abolition will be from 2012/13 at the earliest and is subject to the passage of legislation.

**16** Since then Ministers have been examining the most cost effective options for disbanding the Audit Commission and transferring the audit work into the private sector. On 2 June 2011 the Department's Permanent Secretary set out Ministers' initial view that the best value for money option is to outsource all the audits currently undertaken by the in-house practice to the private sector.

**17** Ministers have asked the Audit Commission to begin substantive preparatory work for outsourcing the 2012/13 audits. The Audit Commission has been asked to design a procurement process that allows a range of firms to bid, including the possibility of an in-house bid which could form the basis of a new employee owned mutual.

**18** Ministers confirmed this outsourcing option in July 2011 so the Audit Commission's in-house Audit Practice intends to submit a bid for the work on offer with the aim of providing a distinctive and competitive offer for clients.

**19** We anticipate the proposed move to the private sector will provide us with a groundbreaking opportunity to continue to thrive and develop. Neil Childs, Director of Audit, says: "We are very excited and optimistic about our future. 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 technical and advisory services. We will continue to focus on the challenges you face, at competitive fees".

**20** Please contact Grant Patterson, your Engagement Lead, if you would like to discuss this further.

## **Amendments to the Firefighters' Pension Scheme 1992 and the New Firefighters' Pension Scheme 2006 Consultation**

**21** This consultation sets out a number of proposed changes to the Firefighters' Pension Scheme and New Firefighters' Pension Scheme, including the following key proposals:

- the removal of rule A14, compulsory retirement on the grounds of efficiency;
- changes to the indexation of additional pension benefits;
- changes to the maximum commutation payment;
- proposals to deal with potential age discrimination;
- amendments to the medical and non-medical appeals processes;
- abatement of pensions; and
- technical amendments and alignments with tax legislation.

**22** The closing date for responses is the 26 October 2011.

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

## **Local Government Resource Review Consultation**

**23** On 18 July, the Government published its proposals, for consultation, to allow councils to retain their locally-raised business rates. The consultation seeks views on the Government's proposals to change the way local government is funded by introducing local retention of business rates. These proposals represent a fundamental shift in the way that local authorities are funded, freeing councils from dependence upon central Government grant and giving them a strong financial incentive to drive local economic growth.

**24** The consultation paper opens the debate on the future funding of local government, including fire authorities. The consultation suggests that single purpose Fire and Rescue Authorities would be protected from possible fluctuations in business rates income in 2013/14 and 2014/15. They would be guaranteed to receive, during those two years, the same level of funding as they otherwise would have received. The consultation paper also proposes that county councils, including those who deliver fire and rescue services, would be part of the business rates retention scheme.

**25** The consultation paper has been supplemented by a number of detailed technical papers. These provide more detail on some of the issues raised by the consultation document and include some of particular relevance to fire authorities including 'Dealing with non-billing authorities' and 'Establishing the baseline'.

**26** The consultation ends on Monday 24 October 2011 and is published online at:

<http://www.communities.gov.uk/localgovernment/localgovernmentfinance/lgrsourcereview/>.

## **Fire and Rescue Service National Framework**

**27** The Fire and Rescue Services Act 2004 requires a Fire and Rescue National Framework to be in place which sets out the priorities and objectives for Fire and Rescue Authorities in connection with the discharge of their functions. The Government Response to the Fire Futures Reports, published on 12 April 2011, committed to work with the sector to develop and consult on a new Framework to be in place for 2012.

**28** The Fire Minister Bob Neill MP wrote to partners across the fire sector on Monday 13 June 2011, which announced that officials in the Fire, Resilience and Emergencies Directorate are due to begin work on the next National Framework. The letter highlighted that the new Framework will be a short strategic document that re-sets the relationship between central Government and the Fire and Rescue Service. Stepping back from directing local services, it will place greater emphasis on local accountability for local services and focus on issues where there is a clear national interest, including national resilience.

**29** The Minister has invited the Local Government Group, Chief Fire Officers' Association, Fire Brigades Union and the Fire Sector Partnership to participate in a Partner Working Group. This Group will advise the Minister on content for the draft National Framework consultation document.

**30** There will be a full public consultation on the Framework later in the year, during which all partners and interested bodies will have the opportunity to participate. The existing National Framework remains in force until the new one is brought into effect.

## **Future Fire and Rescue Control Services Scheme**

**31** Following the closure of the FiReControl project in December 2010, the Department consulted on the future of fire and rescue control services. The consultation was launched on 13 January and finished on 8 April 2011.

**32** Issues covered by the consultation included:

- lessons learnt from FiReControl;
- whether improved resilience, efficiency and enhanced technology were as important now as when FiReControl started in 2004;
- the best approach for the future;
- how available funding should be allocated; and
- the role of central Government.

**33** A total of 61 responses were received. On 13 June 2011, the Fire Minister wrote to Chairs of Fire and Rescue Authorities and Chief Fire Officers summarising the points of consensus emerging from the consultation. These included:

- next steps should be sector led and no local solution imposed;
- improved resilience, efficiency and technology were at least as important today;



- funding for the completion of Firelink, for enhanced voice and data services, was the top priority for funding; and
- the best approach locally, with some Government support. There was also backing for developing common standards to support this.

34 The Department published the Government's response in July 2011, including information about the funding scheme for future control services. This takes account of views expressed.

<http://www.communities.gov.uk/publications/fire/controlservicessummaryresponses?view=Standard>

35 The Department will make available total funding of £81 million for improving resilience and efficiency. As a guide, Fire and Rescue Authorities may bid for up to £1.8 million each. Authorities may bid for more than this in cases where exceptional resilience benefits can be shown, but the total sum cannot exceed £81 million.

36 Additional funding of £1.8 million in total will be available for sector-led initiatives that deliver resilience and efficiency benefits for Fire and Rescue Services across the country. An example might be the development of common technical and procedural standards.

37 Bids are requested by 4 November 2011 and will be assessed by the Department and its Fire and Rescue Service experts for value for money and resilience improvements. Where further clarification is required, or the plans submitted could be strengthened through expert advice, the Department will consult a panel with representatives from the Chief Fire Officers' Association and Local Government Group.

38 These two organisations will also be part of the programme oversight process. The Department is grateful for their co-operation in developing the scheme. The Department's strategy is to build national resilience through local solutions. It will be monitoring national resilience outcomes from the improvements made.

### **Payment of Fire Revenue Grant**

39 Neil O'Connor, Director of Fire, Resilience and Emergencies Directorate wrote to all Chief Fire Officers and Heads of Finance on Wednesday 15 June 2011 outlining the arrangements for the payment of Fire Revenue Grant.

40 Payment of Fire Revenue Grant began in June. The grant is being paid in monthly instalments and covers funding for Firelink, New Dimension, Olympics Security and Future Control Rooms. Payments covering the April, May and June instalments were paid together and subsequent monthly payments should be made on 15th of each month starting in July.

**41** The grant includes an initial amount of funding to support transitional planning and implementation efforts for future control room arrangements. This is made up of £20,000 per Fire and Rescue Authority and a fixed amount of £50,000 provided to the Local Authority Control Companies holding control centre leases. Fire and Rescue Authorities received this element of the grant as a separate one-off payment.

**42** It is expected that additional funding will be made available in light of the responses to the consultation on future control room arrangements. These additional amounts, and any other adjustments required, will be included in a second grant determination later in the year which will increase monthly Fire Revenue Grant payments to Fire and Rescue Authorities.

**43** A copy of 'Fire and Rescue Authorities Revenue Funding Grant Determination 2011/12' (No. 31/1868) was sent with Neil O'Connor's letter. A breakdown of the grant payable under this grant determination is attached to this bulletin. These figures, totalling £37.3 million, supersede the indicative figures released alongside the local government settlement.  
<http://www.communities.gov.uk/publications/fire/fsb122011>

**44** Funding for Shropshire and Wrekin Fire Authority is set out below.

Firelink	Control Rooms (1)	New Dimension	Total
£0	£20,000	£43,000	£63,000

# Key considerations

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

- Has the Authority responded to the consultation on the proposed changes to the firefighters' pension schemes?
- Has the Authority responded to the Local Government Resource Review consultation?
- Has the Authority read the response to the Future Fire and Rescue Control Services Scheme Consultation and has there been consideration as to whether a bid will be submitted for improving resilience and efficiency?

Emily Mayne  
Audit Manager

September 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	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	In draft	We are planning to issue an unqualified opinion on your financial statements subject to the finalisation of the remaining audit procedures.	September 2011	September 2011
<b>VFM conclusion</b>				
Assessment of the Council's performance against the Value for Money criteria informing the VFM conclusion	In draft	We are planning to issue an unqualified VFM conclusion.	September 2011	September 2011
<b>Annual Audit Letter</b>				
Annual Audit Letter 2010/11	Not started		October 2011	November 2011

## Appendix 2 Questions to support the fraud risk assessment within the Authority

Questions for the Audit and Performance Management Committee	Response
1 Are you aware of any instances of fraud, either within the organisation as a whole or within your department during the period 1 April 2010 – 31 March 2011?	
2 Do you suspect fraud may be occurring, either within the organisation or within your department?	
3 Have you identified any specific fraud risks within the organisation/ your department?	
4 Do you have any concerns that there are areas within your department or organisation that are at risk of fraud?	
5 Are there particular locations within the organisation where fraud is more likely to occur?	
6 Are you satisfied that internal controls, including segregation of duties, exist and work effectively?	
7 If not where are the risk areas?	
8 What other controls are in place to help prevent, deter or detect fraud?	
9 How do you encourage staff to report their concerns about fraud?	
10 What concerns about fraud are staff expected to report?	
11 From a fraud and corruption perspective, what are considered to be high risk posts within your area of responsibility?	
12 How are the risks relating to these posts identified, assessed and managed?	
13 Are you aware of any related party relationships or transactions that could give rise to instances of fraud?	
14 How do you mitigate the risks associated with fraud related to related party relationships and transactions?	

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