

# Annual Audit Letter

Appendix 1

Tyne and Wear Fire and Rescue Authority

Audit 2010/11



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# Key messages

This report summarises the findings from my 2010/11 audit, which 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.

I am also required to consider any matters brought to my attention by the public, and whether there is a need for me to exercise my formal audit powers.

Key audit risk	Our findings
Unqualified audit opinion	√
Proper arrangements to secure value for money	√
Certificate issued	√

## Audit opinion on the financial statements

The Authority coped well with the significant accounting changes introduced this year, and I issued an unqualified opinion on the 2010/11 financial statements on 26 September 2011.

Only a small number of errors were identified during the audit. Most of these were subsequently adjusted and none had any impact on the overall financial position of the Authority as previously reported.

## Value for money

The Authority is well placed in terms of working balances and reserves, with a good track record of delivering to budget and making efficiency savings in excess of national targets. It faces significant reductions in grant funding over the next three to four years but has reworked its strategic and financial plans to meet the challenges ahead.

I have issued an unqualified value for money conclusion, stating that during 2010/11 the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

## Audit certificate

I have not received any formal notices of objection from the public, and no other issues have arisen during our audit this year which required me to exercise my formal audit powers.

Consequently I was able to issue my certificate alongside the audit opinion in September 2011.

# Current and future challenges

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Economic downturn and financial pressures on the public sector

The Authority is facing a 25 per cent reduction in grant funding over the next three to four years. Strategic and financial plans have been reworked to deliver the necessary cost reductions whilst maintaining adequate levels of working balances and, so far as possible, avoiding compulsory redundancies. Action to date has included:

- restructuring the community safety function;
- reducing the number of retained fire appliances;
- developing a low activity staffing model for less busy fire stations; and
- redeploying frontline staff to reflect the updated Integrated Risk Management Plan.

Reviews of back office services and property management are well underway. Successful partnership working and PFI schemes also deliver efficiencies. The key challenge for the Authority in coming months is to:

- closely monitor delivery of the 2011/12 budget and take early action if budget savings are not being realised; and
- monitor service delivery, especially emergency response and preventative work with vulnerable groups, to ensure that safety is maintained during a period of considerable uncertainty and change.

However it is likely that the scale of spending reductions in future years will require all fire authorities to adopt more strategic solutions, alternative models of service delivery and innovative ways of working. This will be a key focus for community leadership and risk management processes.

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Future challenges

The Authority has taken appropriate steps to maximise future income streams by keeping fees and charges under review, and it proactively markets the services it can offer to partners and third parties. But proposed changes to NNDR pooling arrangements and pension schemes could have a significant effect on fire authority finances in future years. The impact at a local level will need to be kept under review and assessed as part of future budget preparations

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Control room arrangements

The Government's regional control rooms project was abandoned in December 2010. The Authority's West Denton control room has some remaining operational capacity but this is limited and plans are in place to develop options for its replacement which are:

- affordable in the current climate;
  - compatible with existing technology; and
  - deliver to service standards set out in the Integrated Risk Management Plan.
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# Financial statements and annual governance statement

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The financial statements and annual governance statement are an important means by which the Authority accounts for its stewardship of public funds.

## Overall conclusion from the audit

Implementing the new requirements of International Financial Reporting Standards, which had full retrospective effect, was a challenging process for most local authorities in 2010/11. Overall, Tyne and Wear Fire and Rescue Authority coped well with the changes. Officers have continued to produce good quality accounts and working papers, and to manage the closedown and audit process well.

I identified a small number of errors during the audit, which were subsequently adjusted. These related to:

- past service pension costs;
- post balance sheet events;
- presentation of disclosure notes; and
- long term investments.

I also identified some minor misstatements where management decided not to adjust, for the reasons set out in the Authority's Letter of Representation. I am satisfied that neither the adjusted or unadjusted errors we identified had any significant impact on the Authority's overall financial position.

## Significant weaknesses in internal control

I did not identify any significant weaknesses in the Authority's internal control arrangements.

# Value for money

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**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 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 Fire Authority has proper arrangements in place, and I issued an unqualified value for money conclusion on 26 September 2011.

A summary of my findings and conclusions in respect of each of the two areas is set out below.

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## Value for money criteria and key messages

Criterion	Key messages
<p><b>1. The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>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.</p>	<p>Medium term financial planning is well established and linked to the Authority's annual review of its strategic objectives and Integrated Risk Management Plan. The medium term financial plan covers the next three to four years and is based on:</p> <ul style="list-style-type: none"><li>■ detailed risk assessments;</li><li>■ analysis of demographic trends;</li><li>■ realistic assumptions about funding levels, pay and prices;</li><li>■ financial modelling, option appraisal and cost/benefit analysis as necessary to support key decisions; and</li><li>■ working balances maintained at 5 per cent of spending.</li></ul>

Elected and co-opted members provide appropriate and informed challenge on financial matters at both Governance and Full Committee meetings.

Senior officers and members have received detailed reports and briefings on the potential impact of funding reductions following the Spending Review. There has been extensive consultation with staff, the business community, local people, trade unions and partners to determine how these can best be tackled and to establish clear priorities for the future.

The Authority is well placed in terms of working balances and reserves, with a good track record of delivering to budget in recent years. It has also been successful in meeting other key financial targets such as:

- complying with statutory financial requirements and prudential indicators;
- delivering the approved Treasury Management strategy, which is regularly reviewed and kept up to date; and
- operating within agreed cash limits.

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**2. The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Authority has the sixth highest expenditure per head of all fire authorities nationally and most of this money is directed towards front line activities. Back office and management costs as a percentage of the total budget are low and there is significant investment in community safety activities and partnership work.

The Authority has delivered efficiency savings in excess of government targets in recent years, through an ongoing programme of service reviews. Financial savings have been secured through:

- restructuring the community safety function;
  - reducing the number of retained fire appliances;
  - developing a low activity staffing model for less busy fire stations; and
  - redeploying front line staff to reflect the updated Integrated Risk Management Plan.
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A back office service review is also well underway with implementation continuing into 2011/12, along side a review of property and asset management. Successful partnership working is well established and yields efficiencies, for example:

- cross border joint working and service provision arrangements for fleet and stores management, and occupational health, now in place with Northumberland Fire and Rescue Service;
- many back office services provided by Sunderland City Council;
- joint selection and recruitment process with neighbouring fire authorities;
- training offered to other fire authorities and third parties;
- two successful PFI schemes are in place, one a joint scheme with neighbouring fire authorities.

Good governance arrangements are in place for partnership working. These include a regular appraisal of the costs and benefits of individual arrangements.

At a more operational level, lower cost options have been considered and approved in relation to 'Safetyworks' and vehicle replacement. An efficiency log in each department gives all staff the opportunity to highlight potential savings. The Authority participates in benchmarking clubs and carries out detailed comparisons of costs, activity levels and performance.

2010/11 year end performance report confirms that:

- all key improvement plans have been delivered;
- 50 per cent of key performance indicators have met their target and 91 per cent of these show improvement when compared to the prior year; and
- performance is now above metropolitan fire service average or better in all areas except the incidence of deliberate fires.

All feedback from external accreditation, agencies, and peer review in 2010/11 has been positive.

# Closing remarks

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I have discussed and agreed this letter with the Chief Fire Officer and the Chief Finance Officer. I will present it to the Authority meeting on 19 December and provide copies to all elected members.

Detailed findings, conclusions and recommendations in the areas covered by our audit are included in the following reports issued during the year.

Report	Date issued
Initial fee letter	April 2010
Opinion Audit Plan	April 2011
<ul style="list-style-type: none"><li>■ Annual Governance Report</li><li>■ Opinion on the financial statements</li><li>■ Value for Money conclusion</li><li>■ Assurance statement on the Whole of Government accounts return</li></ul>	September 2011
Annual Audit Letter	November 2011

The Fire Authority has always taken a positive and constructive approach to our audit. I wish to thank the Authority's staff for their support and co-operation during the year.

Steve Nicklin  
District Auditor

November 2011

# Appendix 1 - Fees

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	Actual	Proposed	Variance
Audit fee (1)	£75,000	£75,000	£0
Non-audit work	£0	£0	£0
<b>Total</b>	<b>£75,000</b>	<b>£75,000</b>	<b>£0</b>

1. The Audit Commission scale fee for Tyne and Wear FRA is £75,900.

2. The figures above do not reflect the fee rebates made to audited bodies on a national basis as a result of savings made by the Audit Commission. The rebate received by Tyne and Wear Fire and Rescue Authority in 2010/11 was £4,647.

# Appendix 2 - Glossary

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## **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.

## **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.

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