

Annual Audit Letter

Tyne and Wear Fire and Rescue Authority

Audit 2008-2009

November 2009



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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.
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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion

- 1 On 30 September 2009, I issued an unqualified audit opinion on the Authority's 2008/09 financial statements. On the same day I also gave an unqualified Value for Money conclusion, confirming that the Authority had adequate arrangements in place for securing economy, efficiency and effectiveness in its use of resources.
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Financial statements

- 2 The Authority's financial statements and supporting working papers were prepared to a very high standard this year. Only one change was made to the accounts as a result of our audit, to disclose the long term investment in North East Fire Control Company Limited on the Balance Sheet.
 - 3 This is largely cosmetic in 2008/09 but will become more important in future years when the regional control centre is operational and the company has a measurable financial value.
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Local risk based work

- 4 Our local work this year focussed on the regional fire control centre, which is due to 'go live' on a phased basis during 2011/12. During 2008/09 the Authority has clarified accounting arrangements, and made appropriate financial provision for any additional transition costs. Staffing implications have also been well managed to date, and a multi-disciplinary delivery team is in place.
 - 5 A key concern is how current service standards, IT and communication systems, which are different across all four fire authorities, will be brought together. Baselines were established during 2008/09, and work is ongoing to develop common working practices acceptable to all. Governance arrangements, which we understand will be underpinned by formal contracts, are also under development but have not been finalised yet.
 - 6 We have obtained assurance that risks are being appropriately managed, primarily by a phased roll out with extended parallel run times, but as part of 2009/10 audit work we will need to track progress on the operational aspects of handover, staff transfers and governance arrangements.
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Use of resources

- 7 The new national use of resources framework was introduced in 2008/09 and scores are based on the Audit Commission's four point scale. Level 1 represents failure to meet the minimum requirements. Level 4, the highest score, is reserved for genuinely exceptional performance.
- 8 The Authority scored level 3 overall and has demonstrated strong performance across a number of the Key Lines of Enquiry (KLOE). The organisation has delivered significant efficiency savings in recent years, and successfully managed substantial organisational change. It works well in partnership with others to contribute to wider community outcomes, and is becoming much more successful at::
- targeting resources where they are needed most; and:
 - evaluating the outcomes and improvements that have been delivered.

Audit Fees and Independence

- 9 Audit fees are set out in the table below. These are in line with scale fees published by the Audit Commission and have been discussed and agreed with those charged with governance.

Table 1 Audit Fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£37,000	£37,000	0
Value for money and use of resources	£29,650	£29,650	0
Data Quality	£ 6,600	£ 6,600	0
Whole of Government Accounts	£ 950	£ 950	0
Total audit fees	£74,200	£74,200	0
Non-audit work	0	0	0
Total	£74,200	£74,200	0

- 10 The audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Actions

- 11 Throughout the year, I have made recommendations where appropriate to assist the Authority in meeting its responsibilities and to help support improvement. Recommendations have been agreed with officers and we will continue to monitor progress as part of next year's work.

Financial statements and annual governance statement

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

Financial statements and internal control

- 12 The Authority's 2008/09 financial statements and supporting working papers were prepared to a very high standard and I issued an unqualified opinion on the financial statements on 30 September 2009.
 - 13 As a result of our audit, management agreed to make adjustments to disclose the long term investment in the North East Fire Control Company Limited on the Balance Sheet. This is largely cosmetic in 2008/09 but will become more important in future years when the regional control centre is operational and the company has a measurable financial value.
 - 14 Officers also agreed to make a number of minor presentational changes to the accounts. These changes are exclusively presentational and do not have an impact on the Authority's underlying financial position or financial performance as previously reported in the financial statements.
 - 15 I did not identify any significant weaknesses in internal control arrangements.
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Regional control centre

- 16 The North East Fire Control Company (NEFCCL) was formed in August 2007 to operate and account for the new regional control centre on behalf of the four north east fire authorities. The control centre building is located in Durham and the transfer of services is expected to occur on a phased basis during 2011/12.
- 17 As part of this year's audit we reviewed the proposed accounting arrangements for NEFCCL, and concluded that it should be accounted for as a 'joint venture' when it becomes operational next year. We have discussed this with officers, who agree with our assessment.
- 18 Construction and fitting out has been grant financed, but project managed locally through a regional delivery team. Nationally the project has suffered from significant delays and overspends, but DCLG has provided additional funding and Authority has established a £0.3m reserve to cover any additional transition costs. Staffing implications have been well managed to date.

Financial statements and annual governance statement

- 19** A key concern is how current service standards and IT systems, which are different across all four fire authorities, will be brought together. A review was undertaken by staff drawn from a number of different disciplines during 2008/09, to establish a baseline, and work is ongoing to develop a set of common performance standards acceptable to all. This work is closely linked to the development of formal contract agreements to underpin NEFCCL's governance arrangements, but we have not had sight of any draft documentation as yet.
- 20** A lead contractor has been appointed by DCLG to deliver IT and communications solutions, but these are still under development. Change management and process re-engineering will feature highly in terms of work to be addressed before rollout, training will clearly be a significant issue and more specific concerns include:
- standardising vehicle identification systems (the Authority has now adopted the national ID system);
 - integrating mapping/GPS and mobile data stations on vehicles with control room equipment;
 - data migration from old to new systems, and management information capabilities.
- 21** All of these risks have been recognised, included in the Authority's risk register, and are being managed - primarily by a phased roll out with extended parallel run times. As part of 2009/10 audit work we will need to track progress on the operational aspects of handover in terms of business continuity and IT solutions. We will also review:
- the transfer of staff to NEFCCL, and any TUPE/redundancy issues arising; and
 - contracts and other governance arrangements.

Value for money and use of resources

I considered how well the Authority is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Authority put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

22 In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.

I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work. However, the 2008/09 assessment is very different from previous assessments. Judgements are now much more strategic and less detailed, with a focus on outcomes rather than processes. The standard required to merit a level three assessment has been raised, and level four scores are reserved for genuinely exceptional performance.

23 Theme scores are shown in Table 2 below.

Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	3

24 The Authority has demonstrated strong performance across a number of the Key Lines of Enquiry (KLOE). In particular the Authority:

- integrates financial and service planning, is well placed financially and maintains good budgetary control. There is a clear commitment to high quality financial reporting;

Value for money and use of resources

- works well in partnership with others to contribute to wider community outcomes;
 - has a clear understanding of what skills and staffing levels are required to deliver service improvements, and invests accordingly. Effective processes are in place to manage sickness absence and prevent accidents at work;
 - communicates well with staff and partners, and has successfully managed significant organisational change whilst maintaining a highly motivated workforce;
 - collects comprehensive, accurate performance data; and
 - has good systems of governance and internal control.
- 25** The Authority has delivered significant efficiency savings in recent years. Real costs have fallen by 6 per cent since 2004, and precept increases were the lowest of all fire authorities nationally in 2008/09 and 2009/10. The organisation is becoming much more successful at targeting resources where they are needed most, and evaluating the outcomes and improvements that have been delivered.
- 26** A small number of improvement areas have been identified which include the following:
- the cost and quality of back office functions has not yet been subject to review;
 - the Authority provides little information to stakeholders and the public in relation to policies on sustainability and its environmental footprint; and
 - although there is a strong commitment to equality and diversity, with much improved female representation in the workforce, the Authority employs a very low proportion of minority staff.
- 27** Our detailed findings against each of the themes and KLOEs are summarised in Appendix 1.

VFM Conclusion

- 28** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, these criteria are now aligned to use of resources judgements and the Audit Commission now specify each year which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 29** On 30 September 2009, I issued an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. My conclusions on each of the relevant areas are set out in Appendix 1.

Closing remarks

- 30 I have discussed and agreed this letter with the Chief Fire Officer and the Chief Finance Officer. I will present this letter to the Governance Committee, and provide copies to all Authority members.
- 31 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Authority during the year.

Table 3 Reports issued 2008-09

Report	Date issued
Audit Fee letter	April 2008
Detailed opinion plan	July 2009
Annual Governance report Opinion on financial statements Value for money conclusion Audit certificate 2008-09 Whole of Government accounts return	September 2009
Use of Resources assessment	October 2009
Annual audit letter	November 2009

- 32 The focus of our local risk based work next year is expected to be use of natural resources, which will be assessed for the first time in 2010. We will continue to monitor the Authority's management of financial, legal and operational risks identified in relation to the regional control centre, as discussed above.
- 33 The Authority has taken a positive and constructive approach to our work. I wish to thank all staff for their support and co-operation during the audit.

Steve Nicklin
District Auditor
November 2009

