

# Annual Audit Letter

Tyne and Wear Fire and Rescue Authority

Audit 2009/10

**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

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# Key messages

**This report summarises my findings from the 2009/10 audit. My audit comprises two elements:**

- **the audit of your financial statements (pages 5 to 6); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 7 to 9).**

## Financial statements

**1** The Authority has been faced with complex changes to its accounting requirements in 2009/10, in spite of this the standard of financial statements and supporting working papers were good. Although there were a number of amendments as a result of our audit work, none of these had any impact on the Authority's reported financial performance for the year, or the levels of reserves and balances previously notified to Members.

**2** I issued an unqualified opinion on the financial statements on 30 September 2010, in line with statutory requirements.

## Value for money

**3** All of the relevant value for money criteria specified by the Audit Commission for fire and rescue authorities have been met. I issued an unqualified value for money conclusion as part of my audit opinion and certificate on 30 September 2010.

**4** The Authority continues to manage its finances effectively, and has maintained the strengths we identified last year in relation to financial planning and reporting, internal control, governance and partnership working. We also noted a number of improvements. Performance monitoring and management has improved through better use of incident reporting information and an increased willingness to challenge established ways of doing things.

**5** Costs and performance have generally improved relative to other metropolitan fire services, with continued reductions in the numbers of deliberate and accidental primary fires, and high levels of public satisfaction with the service.

**6** Inevitably there remains some scope for improvement. Deliberate secondary fires remain high compared with other metropolitan fire authorities, as do automatic fire alarm call-outs. The Authority has put arrangements in place to analyse in detail the intelligence linked to such incidents, and has introduced practical initiatives to reduce them, working in partnership with others.

## **Audit fees**

**7** An analysis of our audit fees for 2009-10 is set out in Appendix 1. There have been no changes to fee levels previously agreed with you.

## **Current and future challenges**

**8** The scale of financial pressures facing public bodies in the current economic climate is unprecedented in recent years. The Authority is currently reformulating its plans and priorities in the light of recent Government announcements that there will be a 25 per cent reduction in formula grant funding for fire and rescue authorities over the period to 2014/15.

**9** At the same time, the absence of a nationally determined framework for comparative information and assessment will put the onus on the Authority's own performance management processes to:

- identify and implement improvements; and
- ensure that agreed service standards are maintained.

**10** This has been recognised and is to be addressed through participation in the Local Government Group, regional and national fire networks. There will also be a number of operational challenges to deal with, and much still remains to be done, both at a national and local level, to progress the regional control centre project.

**11** Against this background, demands placed on management will be significant and capacity inevitably stretched. Members will need to:

- provide strong and focussed leadership;
- make difficult decisions when necessary;
- ensure that deliverable forward plans are in place; and
- develop robust monitoring procedures to ensure that these are delivered.

# Financial statements and annual governance statement

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

**I gave an unqualified opinion on the Authority's 2009/10 financial statements on 30 September 2010, in line with statutory target dates.**

## Overall conclusion from the audit

**12** The Authority has been faced with complex changes to its financial reporting requirements in 2009/10. Areas most affected were fixed asset and agency accounting, and new disclosures for senior officer remuneration. Overall the Authority coped well with these new requirements. Financial statements and working papers were prepared to a good standard and officers responded promptly to our queries and requests for further information.

**13** Officers did agree to make the following adjustments as a result of our audit work :

- amendments to the Cash Flow Statement and comparative information in respect of agency accounting;
- additional disclosures in respect of recent pension changes, retained firefighter back pay awards and the future financial obligations in respect of PFI Phase 2 (Tynemouth Fire Station);
- additional information and explanations in respect of officers' emoluments disclosures; and
- various other presentational adjustments to the Balance Sheet, Firefighters' Pension Fund Account and disclosure notes.

**14** None of these amendments had any impact on the Authority's financial performance for the year, or the levels of reserves and balances previously reported to Members.

## Significant weaknesses in internal control

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

## Preparations for IFRS

**16** A major challenge for all local authorities is the move to International Financial Reporting Standards (IFRS). Changes to the accounting treatment for PFI schemes and agency arrangements have already been implemented. Issues to be addressed in 2010/11 relate to:

- leasing;
- employee benefits; and
- valuations and disclosures in respect of property, plant and equipment.

**17** Work in respect of all of these areas is well in hand and Members have received regular progress reports. The next key stage for officers is to restate the 2009/10 opening balance sheet position and devise a skeleton set of 2010/11 accounts. We intend to review these early in 2011.

# Value for money

**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 (VFM) conclusion.**

## **2009/10 use of resources assessments**

**18** At the end of May 2010, the Audit Commission wrote to all chief fire officers to inform them that following the Government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**19** However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

**20** I report the significant findings from the work I have carried out to support the vfm conclusion.

## **VFM conclusion**

**21** I assessed the Authority's arrangements to achieve economy, efficiency and effectiveness in its use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

**22** A summary of my findings is set out below.



Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural Resources	Yes

**23** The Authority has maintained the strengths we identified last year in relation to financial planning and reporting, internal control, governance and partnership arrangements. We also noted a number of improvements, as follows:

- Performance monitoring and management has developed significantly, with a performance action group established to improve accountability and share best practice. Detailed incident reports at district and station level have enabled more focussed preventative activity. As a result, kitchen fires have reduced by 11 per cent and antisocial behaviour fires by 57 per cent.
- Costs and performance have generally improved relative to other metropolitan fire services, with continued reductions in the numbers of deliberate and accidental primary fires, high levels of public satisfaction with the service, better targeting of preventative and community safety work and generally good outcomes from partnership initiatives. All key activity objectives have been met.
- There is increasing willingness to challenge established ways of doing things, with rigorous cost/benefit analysis and an expectation that all staff will identify and deliver efficiencies within their own service areas. Back office functions have also been reviewed using 'lean thinking' techniques.

**24** Management of natural resources was assessed as a value for money criteria for the first time in 2009/10. The Authority displays a clear commitment to managing its impact on the environment, and has delivered a number of successful outcomes in this area.

**25** Inevitably there remains some scope for improvement. Deliberate secondary fires remain high compared to other metropolitan fire authorities, as do automatic fire alarm call-outs, and the Authority has plans in place to tackle these areas in the coming the year.

## **Local risk-based work**

**26** To support my review of the criteria set out above I have continued to track progress on the regional control centre. The North-east project is one of a number of pilot projects nationally, aiming to replace individual fire service control centres with up to date regional facilities. But the projects, which are 100 per cent government funded, have experienced considerable difficulties and delays.

**27** Independent reviews by both the Parliamentary Accounts Committee and the National Audit Office this year were highly critical but concluded that better value for money would be achieved by completing the projects than by curtailing them. New contractors have been appointed with clearer deadlines, key milestones and more onerous contract penalties established.

**28** At a local level the four north east fire authorities have worked together to progress the project as well as could be expected. In the absence of any national guidance they have managed to:

- develop a common set of locally agreed service standards and response procedures;
- assess staffing needs, TUPE implications and redeployment opportunities; and
- agree on the joint venture accounting treatment.

**29** Tyne and Wear Fire and Rescue Authority has also set aside some additional financial resource to cover any future shortfalls in Government funding. But clearly many uncertainties remain, and much is still left to do at both national and local levels.

## **Approach to local value for money work from 2010/11**

**30** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

**31** My work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**32** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Authority in my annual report to those charged with governance and in my annual audit letter.

# Current and future challenges

## Financial pressures

**33** Tyne and Wear Fire and Rescue Authority manages its finances well, and has developed a much clearer focus on value for money in recent years. In 2009/10 it completed a comprehensive review of back office services and reported efficiency savings well in excess of national targets. A culture has been successfully developed whereby all staff take responsibility for identifying and delivering efficiencies in their own service areas

**34** But financial pressures are increasing at an unprecedented rate. The Government's recent spending review has indicated that there will be a 25 per cent reduction in formula grant funding for fire and rescue authorities over the period to 2014/15, equivalent to a 13 per cent reduction in 'real terms' resourcing. Interest income from investments has plummeted, at the same time interest rates on PWLB loan payments are expected to rise.

**35** The Authority is reformulating its financial plans and priorities in the light of these proposals. An updated medium term financial plan and budget planning framework are due to be presented to members for approval in December 2010, and work is under way to produce a draft budget for 2011/12 early in the New Year.

**36** The Authority recognises that the future may demand more difficult choices and changes to the established patterns of service provision. It may also wish to reconsider the future use of longstanding earmarked reserves and provisions in the light of changing circumstances.

## Improving performance

**37** The Government has recently announced the abolition of:

- CAA and Use of Resources;
- National indicators; and
- Local area agreements and stretch targets.

**38** Many welcome this as an opportunity for public sector organisations to set their own agenda and focus on locally determined priorities and objectives. But the absence of a nationally determined framework for comparative information and assessment raises important questions for fire service managers about how the Authority will continue to identify and implement improvements in the future. It is also likely to have an impact on the role of:

- Members, especially those charged with governance and scrutiny roles; and
- Internal Audit, who may be able to provide additional assurance to management on governance, risk management and the quality of performance information.

**39** This has been recognised and is to be addressed through participation in the Local Government Group, regional and national fire networks.

## **Future developments**

**40** The Authority is reasonably well placed financially, but recognises that the financial pressures it will face in the future may demand more difficult choices and changes to the established patterns of service provision. This is being reflected in the medium term financial plan. At the same time it will be facing a number of operational challenges, particularly in relation to the progress of the regional control centre.

**41** Our future work will focus on financial resilience, delivery of identified efficiency savings, and improvements to value for money. We will also review the Authority's response to national publications such as the recent Audit Commission report on contingency arrangements.

## Closing remarks

**42** I have discussed and agreed this letter with the Chief Fire Officer and Chief Finance Officer and presented it to the Governance Committee. Copies have been made available for all Members.

**43** Full details of the reports I have issued to the Authority during the year are set out below. Officers and Members have also received a number of verbal reports on emerging issues.

Report	Date issued
2009-10 Opinion Audit Plan	March 2010
2010/11 Audit plan	April 2010
<ul style="list-style-type: none"><li>■ Annual governance report</li><li>■ Auditor's report giving an opinion on the financial statements</li><li>■ External audit opinion on Whole of Government Accounts Return</li></ul>	September 2010

**44** The Authority has taken a positive and helpful approach to our audit. I wish to thank staff for their support and cooperation during the audit.

Steve Nicklin  
District Auditor

November 2010

## Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements, annual governance statement and Whole of Government accounts return	£37,000	£37,000	0
Value for money	£37,200	£37,200	0
Total audit fees	£74,200	£74,200	0
Non-audit work	0	0	0
Total	£74,200	£74,200	0

## Appendix 2 – Glossary

### **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 Authority 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 accounts, auditors must give their 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.

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any reservations.

### **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 money, people and time.



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