

Annual Audit Letter

Cheshire Fire Authority

Audit 2010/11



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Key messages

This report summarises the findings from my 2010/11 audit which I have carried out in accordance with the Audit Commission's Code of Audit Practice. It also includes comments on future challenges facing the Authority.

Work under the code	Outcome	Key findings
Opinion on the financial statements	●	<p>I issued an unqualified audit opinion on the Authority's financial statements on 21 September 2011.</p> <p>The Authority has maintained the high quality of its financial statements and coped well with the challenge of implementing International Financial Reporting Standards (IFRS).</p>
Annual governance statement	●	<p>The Authority's annual governance statement includes the required information. It is consistent with the financial statements and my knowledge of the Authority.</p>
Arrangements to secure value for money	●	<p>I concluded that the Authority had proper arrangements in place to achieve economy, efficiency and effectiveness in its use of resources.</p> <p>The Authority's strategy sets out how it plans to secure a stable financial position over the next four years. This includes £4.8m of savings that are intended to achieve this whilst maintaining service standards. The savings planned for 2013/14 and 2014/15 will be challenging to deliver.</p>

Current and future challenges

In common with many public sector bodies, the Authority faces some challenges in the coming year and beyond.

Economic downturn and pressure on the public sector	<p>The economic downturn and reductions in Government funding will have a significant impact on the Authority. In particular, the Authority expects its Government grant to be cut by £1.1m in 2013/14 and by a further £1.1m in 2014/15.</p> <p>The Authority's four-year strategy provides the framework within which it plans to make the necessary savings whilst maintaining fire safety. It also informs the 2012/13 Integrated Risk Management Plan, which is currently out for consultation. The draft Plan recognises that the Authority's main focus in 2012/13 will need to be on the work required to enable £2.3m of savings to be delivered in the following two years. The savings include changes in station locations, the number of fire engines and shift systems.</p>
Joint arrangements and shared services	<p>Shared services are one way in which organisations can reduce costs whilst maintaining service standards. The Authority is working with three other North West fire and rescue services to develop a business case for a joint control centre. The aim of the project is to deliver an improved service at lower cost than the current arrangements.</p>

Financial statements and annual governance statement

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

Overall conclusion from the audit

I issued an audit report including an unqualified opinion on the financial statements.

The Authority has maintained the high quality of its financial statements and coped well with the challenge of implementing IFRS. The most significant change to the financial statements arose from the issue of new guidance in August 2011 on the treatment of estimated future liabilities for Firefighters' injury awards. This had the effect of transferring £15.7m of expenditure from 2010/11 into the restated expenditure and liabilities of previous years. The draft statements were also amended to include further disclosures, of which an exceptional item and segmental information were the most significant. The cash flow statement was amended after the statements were originally presented to Members but before audit. I was provided with specific representations in relation to the Authority's accounting treatment of New Dimension Assets.

Annual governance statement

The Authority's Annual governance statement includes the required information. It is consistent with the financial statements and my knowledge of the Authority.

Value for money

I considered whether the Authority is managing and using its money, time and people to deliver value for money. I assessed its performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assessed the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Authority has adequate arrangements in place and my conclusions on each of the two specified areas are set out below.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</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>The Authority achieved a surplus of £0.86m in 2010/11, enabling it to further strengthen its healthy level of usable reserves. The Authority's strategy, 'Planning for a safer Cheshire 2011-15', sets out how the Authority plans to secure a stable financial position over the next four years. The financial plan envisages that the Authority will be able to maintain its expenditure within available resources each year, without drawing upon reserves. The plan is soundly based, although with increased uncertainty in the last two years. This is because the amount by which the government grant will be reduced has not yet been announced and the planned efficiencies will be challenging to deliver.</p>

Criterion

2. Securing economy efficiency and effectiveness

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.

Key messages

The Authority's financial plan includes £4.8m of efficiencies and savings over the next four years, of which £2m will be transferred to reserves to help fund capital expenditure. The Authority's strategy outlines how it intends to achieve these savings whilst maintaining service standards. Members and staff have been involved in developing the strategy and Integrated Risk Management Plan (IRMP). Plans are in place to deliver the £1.9m of savings scheduled for 2011/12. Most of the planned £2.3m efficiencies in the last two years are to be realised by changing working arrangements at some fire stations. This may involve significant capital investment and will be challenging to deliver within the timescales in the IRMP. In addition, a three year programme of value for money reviews has begun, involving the use of benchmarking.

Closing remarks

I have discussed and agreed this letter with the Chief Fire Officer. I will present this letter at the Authority meeting on 14 December 2011 and will provide copies to all Members.

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.

Report	Date issued
Audit fees letter	April 2010
Audit plan	April 2011
Annual governance report	September 2011

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

Julian Farmer

District Auditor

November 2011

Appendix 1 - Fees

	Actual	Proposed	Variance
Scale fee	£72,125	£72,125	None
Non-audit work	None	None	None
Total	£72,125	£72,125	None

I have not had cause to change the fee during the audit.

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 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.

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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