

# Annual Audit Letter

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North Yorkshire 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.**

# Contents

<b>Key messages</b> .....	<b>2</b>
Audit opinion and financial statements .....	2
Value for money.....	2
Audit fees.....	2
Current and future challenges .....	3
<b>Financial statements and annual governance statement</b> .....	<b>4</b>
Overall conclusion from the audit .....	4
Internal control.....	4
<b>Value for money</b> .....	<b>5</b>
2009/10 use of resources assessments .....	5
VFM conclusion .....	5
Approach to local value for money work from 2010/11.....	7
<b>Current and future challenges</b> .....	<b>8</b>
Challenges.....	8
Implementing International Financial Reporting Standards (IFRS).....	9
<b>Closing remarks</b> .....	<b>10</b>
<b>Appendix 1 Glossary</b> .....	<b>11</b>
<b>Appendix 2 Action plan</b> .....	<b>12</b>

# Key messages

**This report summarises my findings from the 2009/10 audit. My audit includes:**

- **the audit of the Authority's financial statements (page 4); and**
- **my assessment of the Authority's arrangements to achieve value for money in its use of resources (pages 5 to 7).**

**I have included only significant recommendations in this report. The Authority has accepted these recommendations.**

## **Audit opinion and financial statements**

**1** I gave an unqualified opinion on the Authority's 2009/10 financial statements on 27 September 2010.

**2** The Authority completed the draft financial statements for audit to deadlines and, as in previous years, these were of a high standard with good supporting working papers. Officers were prompt in responding to audit queries. The Authority made some changes to the notes to the accounts in response to issues identified at audit.

**3** The Authority has prepared well for implementing the new International Reporting Standards in 2010/11.

## **Value for money**

**4** On 27 September 2010, I also gave an unqualified opinion on the Authority's value for money arrangements in 2009/10. The Authority has made good progress in several areas, including financial planning and management and reducing sickness absence.

## **Audit fees**

**5** The initial audit fee was agreed in the 2009/10 fee letter to the Authority on 9 April 2009. Since then, I have agreed an increase with the Authority to review preparations for IFRS arrangements, at the Authority's request.

	Actual	Proposed	Variance
Financial statements and annual governance statement	46,985	42,220	4,765
Value for money	25,665	25,665	-
Whole of Government Accounts	1,700	1,700	-
<b>Total audit fees</b>	<b>74,350</b>	<b>69,585</b>	<b>4,765</b>
Non-audit work	-	-	-
<b>Total</b>	<b>74,350</b>	<b>69,585</b>	<b>4,765</b>

## Current and future challenges

**6** The economic downturn continues to have a significant impact on public finances and the bodies that manage them. The recent Government October spending review announced a 25 per cent reduction of government funding for fire and rescue services. The Government is also to carry out a strategic review of fire and rescue services, including a review of the regional control centres project.

**7** To address budget pressures in North Yorkshire, in addition to the savings programme, there has been no recruitment of whole-time firefighters. Work has commenced on the 2011/12 budget, with draft business cases currently under review by senior management before being included in the provisional estimates report for consideration by the Authority in December 2010.

**8** The Authority faces a challenging time, to deliver efficient and effective fire and rescue services across North Yorkshire with reducing financial resources and uncertainties on future changes to fire and rescue services. The Authority will need to fully assess the implications of funding changes on delivery and the capital programme and ensure that the medium term financial strategy is revised in response to funding reductions. It will need to develop firm plans to deliver efficiencies, with robust monitoring of their delivery.

# 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.**

## Overall conclusion from the audit

**9** I gave an unqualified opinion on the Authority's 2009/10 accounts on 27 September 2010.

**10** Once again, the Authority produced good quality draft financial statements for audit, supported by satisfactory working papers. Officers were prompt in responding to audit queries.

**11** In 2009/10 the Authority had to review its accounting treatment for PFI, to meet new accounting requirements, recognising the PFI scheme on the Authority's balance sheet for the first time. The Authority dealt with these complex transactions well.

**12** I reported the findings of my audit to the Audit and Performance Review Committee on 24 September 2010. There were two corrections made to the accounts in the note on financial instruments and the cash flow statement.

**13** In addition, the Authority had wrongly capitalised £16,000 of maintenance expenditure, which should have been charged to revenue. There were no indications that this was a wider problem rather than a one-off error. Members chose not to amend for this item as it was not material and to correct it would have meant a re-working of the majority of the Authority's financial statements for 2009/10.

**14** The Authority also made a post-balance sheet disclosure following the announcement from the Treasury that from April 2011 increases in pensions will be linked to the Consumer Price Index (CPI) instead of the Retail Price Index (RPI). Historically, the CPI has been lower than RPI and there may therefore be a reduction in pension liabilities as a result.

## Internal control

**15** I did not identify any significant weaknesses in the Authority's internal control arrangements. However, I recommended that the Authority should improve the reconciliation process between the payroll system and general ledger. Improving controls in this area is important given the significant value of transactions processed through the payroll system.

# 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**

**16** At the end of May 2010, the Commission wrote to all chief executives to inform them that following the Government's announcement, work on CAA would cease with immediate effect. As a result, the Commission would no longer issue scores for its use of resources assessments.

**17** 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.

**18** I report the significant findings from the work I have carried out to support the VFM conclusion.

## **VFM conclusion**

**19** I assessed your arrangements to achieve economy, efficiency and effectiveness in your 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.

**20** I issued an unqualified conclusion stating the Authority had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources, and my findings are summarised in the table overleaf.

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>	
Workforce	Yes
Natural resources	Yes

**21** Overall, I found that the Authority has made progress in several areas including:

- improving financial planning and management, enabling it to meet priority areas, including saving more lives and helping vulnerable people to live at home;
- adopting a structured approach to achieving savings and efficiencies;
- improving its approach to consulting with members and the public and using their views to feed into the Integrated Risk Management Plan;
- improving crew productivity and availability by enabling managers to track performance at station level; and
- developing a process to review its continued involvement in community partnerships, to ensure effort is focussed to good effect.

**22** The Authority understands its use of natural resources and is developing a strategy to reduce its impact on the environment. There has been some action to reduce carbon emissions and waste, but it is not yet possible to judge the impact.

## Recommendations

**R1** Develop the approach to using natural resources, including measuring the impact of action plans to reduce the Authority's carbon footprint.

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

**23** 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.

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

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

**25** 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

## Challenges

**26** The economic downturn and reductions in public expenditure are having a significant impact on public finances and the bodies that manage them. There are implications for public sector bodies on the ability to fund service delivery and capital programmes as the level of income available to public bodies comes under pressure.

**27** In June 2010, the Government announced plans to carry out a strategic review of fire and rescue services, including a review of the current regional control centres project. The Authority has identified in its Corporate Risk Register that its most significant risk is the continuing uncertainty around the Regional Control Centre. This will not be resolved until the Government makes a decision on this initiative. Meanwhile, the Authority has made interim arrangements to preserve effective communications and staff morale.

**28** The Government's October spending review plans included a reduction of government revenue funding to fire and rescue authorities of 25 per cent, although most of this will fall into 2013/14 and 2014/15.

**29** Securing adequate financial resources is included in the Authority's strategic risks, reflecting the pressures on public finances. However it is clear that resources will reduce and the Authority will need to make significant savings over the medium term. There has been no recruitment of whole-time firefighters. In addition, a number of draft business cases for the 2011/12 budget are being developed to include in the provisional estimates report which will be considered by the Authority in December 2010.

**30** The Authority faces a challenging time, to deliver efficient and effective fire and rescue services across North Yorkshire with reducing financial resources and uncertainties on future changes to fire and rescue services. The Authority will need to:

- assess the implications of funding changes on delivery and on the capital programme;
- ensure that the medium term financial strategy is revised in response to funding reductions; and
- develop firm plans to deliver efficiencies and focus on priorities.

## Recommendation

- R2** The Authority needs to ensure that it prepares effectively for the decline in central government funding over the next four years. It needs to:
- robustly challenge baseline costs;
  - develop firm plans to deliver efficiencies for the current and future years; and
  - closely monitor the delivery of planned savings and their impact on services.
- 

## Implementing International Financial Reporting Standards (IFRS)

**31** The Authority will need to prepare its accounts under IFRS for the first time in 2010/11, with the 2009/10 accounts also being restated to provide comparatives in the statements. The key areas affected will be non-current assets, component accounting, leases and employee benefits.

**32** The Audit Commission has carried out regular surveys of local governments' preparations for IFRS implementation, and has issued regular reports during 2010. The latest report issued in October 2010 sets out the challenges:

- restate the 2009/10 accounts for IFRS by the end of December 2010;
- produce 2010/11 skeleton accounts including disclosure notes;
- comply with the requirements of component accounting, lease accounting and employee benefits; and
- involve audit committees to ensure they can fulfil their role and challenge the implementation progress.

**33** The Authority has made good progress in preparing for IFRS based accounts. I have held regular progress meetings with finance officers through 2010, and these will continue as the implementation progresses. Officers aim to produce restated 2009/10 accounts by the end of December 2010 and I will audit the re-stated 2009/10 accounts early in 2011 at a time to be agreed with your officers.

## Closing remarks

**34** I have discussed and agreed this letter with the Director of Resources. I will provide copies to all Authority members and present this letter at the Audit and Performance Review Committee on 3 December 2010.

**35** Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Authority during the year.

Report	Date issued
Audit Fee Letter	April 2009
IFRS arrangements review	April 2010
Annual Governance Report	September 2010
Annual Audit Letter	November 2010

**36** The Authority has taken a positive and helpful approach to our audit. I wish to thank North Yorkshire Fire staff for their support and co-operation during the audit.

Lynne Snowball  
District Auditor

November 2010

# Appendix 1 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 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 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

## **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.

## Appendix 2 Action plan

### Recommendations

#### Recommendation 1

Develop the approach to using natural resources, including measuring the impact of action plans to reduce the Authority's carbon footprint.

<b>Responsibility</b>	Director of Corporate Services
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<b>Priority</b>	3
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<b>Date</b>	Ongoing
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#### Comments

#### Recommendation 2

The Authority needs to ensure that it prepares effectively for a 25 per cent decline in central government funding over the next four years. It needs to:

- robustly challenge baseline costs;
- develop firm plans to deliver efficiencies for the current and future years; and
- closely monitor the delivery of planned savings and their impact on services.

<b>Responsibility</b>	Director of Corporate Services
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<b>Priority</b>	3
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<b>Date</b>	Ongoing
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#### Comments

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