

# Annual Audit Letter

Hampshire Fire and Rescue Authority

Audit 2010/11



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# Key messages

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

	Our findings
Unqualified audit opinion	✓
Proper arrangements to secure value for money	✓

## Audit opinion and financial statements

The Authority prepared a good set of financial statements supported by comprehensive working papers. Our audit work has not identified any material errors. The outcome of my work was:

- an unqualified opinion on your financial statements and firefighters' pension fund account; and
- an unqualified opinion on your Whole of Government Accounts consolidation pack.

## Value for money

I issue an unqualified conclusion stating the Authority had proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The key elements of my judgement were that the Authority:

- has a strong awareness of the current and future financial challenges;
- has effective and robust systems in place to secure and monitor financial resilience;
- has taken a proactive approach to the early delivery of cost savings to meet future funding issues;
- has overall costs which compare well with others;
- has clearly set out and consulted upon the prioritisation of services within tighter budgets; and
- has actively engaged staff in identifying and prioritising efficiency savings.

# Current and future challenges

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The immediate and greatest challenge to the Fire & Rescue Service is that of funding. Financial support from the Government is set to reduce by around 25 per cent over the next four years, while income from Council Tax is unlikely to keep pace with inflation as measured by the Consumer Price Index. Locally the Fire Authority has assessed the impact to require in the region of £9 million worth of recurrent savings from across the Service by 2015.

The Fire and Rescue Service plan 2010 foresaw the financial challenges ahead and committed the Authority to review staff numbers and the most efficient ways of working. A staff review process started in October 2010 to identify options to realise efficiencies and streamline work within all directorates. The process has been open and has allowed all staff to contribute to and influence the potential outcomes. The staff review has been linked to corporate and medium term financial planning and has identified efficiency savings in the order of £2.5 million (15 per cent) that can be secured from reduced staffing costs over the period 2011/12 to 2014/15.

Although significant savings have already been achieved and reserves increased to act as a buffer in the tightening financial situation, the Authority recognises that lead-in time to secure efficiency savings is a potential risk to financial resilience in coming periods. Financial planning continues to assume a worst case reduction of 12.5 per cent in both 2013/2014 and 2014/2015, meaning further significant savings in region of £7 million from across the service will be needed.

In response, work has been undertaken to identify and agree further efficiencies in 2011/12 to get an early start and reduce the risks associated with the timing required for savings to be delivered. Eight further efficiency proposals developed from ideas put forward from 'Project Engage' were agreed in May 2011 to achieve another £2.5 million of savings. While good progress has been made since May and efficiencies have been identified these will require close monitoring and regular review to ensure they deliver the planned outcomes.

Joint working arrangements, partnerships and shared services will be key delivering quality services at lower cost over the medium term. The Fire Authority has a good record of successfully delivering service improvement through partnerships and is currently exploring initiatives to replace existing fire control systems with a fully networked and resilient partnership arrangement as well as explore opportunities to increase shared resources and potential for co-delivery of services to reduce the financial pressure in the future.

My work for the 2011/12 VFM conclusion will take account of how the Authority is responding to these challenges.

# Financial statements and annual governance statement

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**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 your financial statements and fire-fighters pension fund account on 26 September 2011. I have also issued an unqualified opinion on your Whole of Government Accounts (WGA) consolidation pack. I also concluded that the information presented in your Annual Governance Statement accords with proper practice and is consistent with my knowledge of the Fire Authority.

The financial statements were supported by comprehensive working papers. This was the first year of presentation of the financial statements under IFRS. This required a significant change to the number and nature of the notes to the financial statements. The draft statements were comprehensive and in compliance with guidance in CIPFA's IFRS based code of practice.

My work did not identify any material errors. Presentational adjustments were agreed and actioned during my audit and were discussed with those charged with governance on 23 September 2011. These adjustments are set out in my Annual Governance Report (AGR).

## **Significant weaknesses in internal control**

I did not identify any significant weaknesses in your 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 (VFM) conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources. In addition to confirming that you have continuing proper practices with regard to the VFM criteria specified in the Code of Audit Practice I assessed your arrangements in greater detail against two criteria specified by the Audit Commission.

My overall conclusion is that the Authority has proper arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on 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. Financial resilience</b></p> <p><b>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>Financial governance is sound. The financial risks facing the organisation are understood and reported openly and clearly to Members. Members of the Authority, the Finance and General Purposes Committee; and the Governance Committee provide effective challenge and hold officers to account.</p> <p>The Authority has a strong track record of sound financial planning. Budget setting is undertaken within a clear financial strategy and medium term financial plan. Reserves are maintained and managed to provide support for future plans and economic conditions.</p> <p>The Authority has established a Financial Challenge Programme Board to oversee its response to the current economic climate and expected grant reductions This ensures a good level of financial resilience and the Authority is well placed to meet the challenges of the expected future reductions in funding.</p>

## 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.

Financial control is also good. The Authority has a record of operating within its budgets with no significant overspends. In 2010/11 overall spend was £3 million less than budgeted of which £2 million was able to be added to balances to assist future financial planning and resilience.

Overall the Authority has strong and effective arrangements in place for continuing to challenge how it secures economy, efficiency and effectiveness. It is prioritising its resources within tighter budgets, achieving further cost reductions and improving efficiency and productivity.

The Authority had a 'good' settlement in stage 1 of the Comprehensive Spending Review (CSR) and is in a better than expected position from previous Medium Term Financial Strategies.

However, the Authority has recognised that difficult decisions on priorities and services still lie ahead with an expected reduction of 25 per cent in grant in the final two years of the CSR settlement. It has established a grant reduction reserve to facilitate schemes for future savings.

The Authority has a robust process of performance review and challenge through benchmarking and best value service reviews. It continues to demonstrate that it provides a cost effective and efficient service offering value for money to local taxpayers. It has overall costs which compare well with others. For example, expenditure per head of population was £37.25 in 2009/10 compared to the combined fire average of £41.53.

It has a good record of finding innovative ways to improve efficiency and secure savings (eg beacon stations, efficient and flexible crewing projects and insurance procurement consortium). More recently it is looking at options for a collaborative networked control system in response to the abolition of Regional Control Centres and is likely to receive some additional funding to achieve this. It is also exploring additional vehicle servicing options with neighbouring fire authorities and other partners to increase income from its workshop facilities. The Authority is at the top end of national tables for the achievement of cashable efficiency savings.

# Closing remarks

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I have discussed and agreed this letter with the Chief Officer, Treasurer and the Director of Corporate Services. I will present this letter at the Governance Committee on 25 November 2011 and will provide copies to all Authority members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the FRA during the year.

Report	Date issued
Audit Opinion Plan	24 March 2011
Annual Governance Report	23 September 2011

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

Kate Handy  
District Auditor

October 2011

# Appendix 1 - Fees

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	Actual	Proposed	Variance
Scale fee (including work on whole of government accounts)	£87,500	£87,500	£ Nil
Non-audit work	£ Nil	£ Nil	£ Nil
<b>Total</b>	<b>£87,500</b>	<b>£87,500</b>	<b>£ Nil</b>

# 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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