

Audit plan

Tyne and Wear Fire and Rescue Authority

Audit 2011/12



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Introduction

This plan sets out my work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of that Statement to you and it summarises where our different roles and responsibilities begin and end.

I undertake my audit work to meet my own responsibilities, which mainly comprise:

- the audit of your financial statements and Whole of Government Accounts return;
- an annual assessment of your arrangements to secure value for money in the use of resources; and
- consideration of any matters brought to my attention by the public.

I comply with the statutory requirements governing my audit work, in particular:

- International Standards on Auditing (as applied to the UK and Ireland)
- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or those charged with governance of their responsibilities.

Key milestones and deadlines

I aim to issue my opinion and value for money conclusion by 30 September 2012.

Table 1: **Proposed timetable and planned outputs**

Activity	Completed by
Opinion: controls and early substantive testing	30 April 2012

Activity	Completed by
Opinion: receipt of accounts	30 June 2012
Opinion :post statement planning and value for money assessment	31 July 2012
Opinion: receipt of supporting working papers	1 August 2012
Opinion: substantive testing	5 September 2012
Present Annual Governance Report at the Governance Committee	24 September 2012 (tbc)
Issue opinion, certificate and value for money conclusion	By 30 September 2012
Summarise overall messages from the audit (via Annual Audit Letter)	By 31 October 2012

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 2: **Audit team**

Name	Contact details	Responsibilities
Steve Nicklin District Auditor and Engagement Lead	s-nicklin@audit-commission.gov.uk	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Fire Officer
Lynn Hunt Audit Manager	l-hunt@audit-commission.gov.uk	Manages and coordinates the different elements of the audit work. Key point of contact for the Chief Finance Officer.
Chris Clancy Team Leader	c-clancy@audit-commission.gov.uk	Responsible for on-site opinion testing. Key point of contact for the Chief Accountant.

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1. I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Accounting statements and Whole of Government Accounts

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I need to understand the Authority to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Authority;
- assessing your own risk management arrangements;
- considering the financial performance of the Authority;
- assessing the overall control environment, IT controls and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Authority's information systems.

Identification of significant risks

The significant opinion risks that I have identified to date are set out below, together with my proposed audit work. Any additional audit risks that I identify will be discussed with you.

Table 3: **Significant risks**

Risk	Audit response
<p>Property, Plant and Equipment (PPE)</p> <p>The Authority is required to value PPE at fair value (with some exceptions). There is a risk that the valuation reported in the financial statements will be materially misstated due to;</p> <ul style="list-style-type: none"> ■ Incorrect asset classifications ■ Incorrect distinction between revenue and capital expenditure ■ Basis of valuation not in line with IFRS requirements ■ Failure to recognise impairments or other significant changes in asset values ■ Incorrect assessments of the assets' estimated useful lives <p>There is also a risk that the Authority will fail to meet</p> <ul style="list-style-type: none"> ■ IFRS and Code requirements ■ Statutory requirements for capital accounting and financing. 	<p>We will review the arrangements in place for:</p> <ul style="list-style-type: none"> ■ establishing estimates of asset lives ■ Identifying impairments ■ maintaining an accurate fixed asset register ■ instructing your valuer and relying on their work <p>We will also carry out tests of detail on capital transactions, balances and disclosures in the accounts</p>
<p>Interests and investments in other organisations</p> <p>The Authority has interests in a limited company (NEFCCL) and the regional management board (RMB), which are both to be wound up during 2011/12.</p>	<p>We will confirm that these business decisions are accounted for in line with IFRS and Code requirements, and will look to ensure consistency of accounting treatment across all of the relevant audited bodies</p>
<p>PFI schemes</p> <p>The Authority has two PFI schemes and both are material to the accounts. It is therefore required to:</p> <ul style="list-style-type: none"> ■ model expected accounting entries on the contract 	<p>As part of our audit work in previous years we have confirmed that PFI accounting entries are consistent with the operators' model, and we have reviewed external financial advice on PFI transactions. The focus of our work in 2011/12 we will be to confirm consistency with prior years and to</p>

Risk	Audit response
<ul style="list-style-type: none"> ■ comply with IFRIC 12 requirements, ■ include the assets and associated liabilities of the PFI schemes in the financial statements ■ account for PFI grant funding in accordance with the Code. 	<p>carry out tests of detail (as appropriate) on:</p> <ul style="list-style-type: none"> ■ contract variations and payment deductions ■ asset revaluation/ impairments ■ refinancing ■ grant receipts
<p>Service Organisation arrangements</p> <p>Sunderland City Council provides a range of support services to the Authority. Specifically, it prepares year end financial statements and undertakes treasury management on your behalf.</p>	<p>We will review the contractual arrangements in place and seek to maximise reliance on the audit work undertaken by the Council’s external audit team, through our own review of their work.</p> <p>We will also undertake tests of detail, including sample checking items of account produced by the service organisation to source documentation. Where necessary we will seek specific representations from management to confirm that shared costs and joint transactions have been correctly allocated between the two sets of accounts.</p>
<p>Pension assets and liabilities</p> <p>The accounting treatment for the national Firefighters’ Pension Fund account (FFPF) and top up grant is specified by the Code. Employees who are not firefighters belong to the Tyne and Wear Local Government pension scheme (TWLGPS) which is accounted for on a different basis under IAS19.</p> <p>These are material and highly complex transactions, reliant to a large extent on information provided by third parties. Therefore there is an inherent risk that the financial statements may be materially misstated.</p>	<p>We will review the Authority’s process for engaging with pension fund actuaries and will:</p> <ul style="list-style-type: none"> ■ confirm their experience and competence ■ assess the reasonableness of key assumptions used ■ review the information provided and outputs received ■ seek assurances from TWLGPS auditors where appropriate. <p>We will also carry out tests of detail on pension fund transactions and disclosures in the accounts</p>

Testing strategy

My audit involves:

- testing of the operation of controls;

- reliance on the work of other auditors;
- Reviewing the work of experts appointed by you; and
- substantive tests of detail of transactions and amounts.

I have sought where possible to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows.

Table 4: **Proposed work**

Timing	Review of internal audit	Walkthrough and Controls testing	Reliance on the work of other auditors and experts	Substantive testing
Prior to receipt of accounts visit	Payroll PFI contract monitoring Project management	General Ledger Debtors and Creditors Payroll and pensions	Sunderland CC audit team for IA review, IT assurance and treasury management work	Review of shared service arrangements NEFCCL and RMB winding up
Final visit	Annual report and opinion (underpins Annual Governance Statement)		TWLGPF auditors and actuaries for IAS19 assertions Government Actuaries for FFPF Actuarial valuations for insurance provisions and reserves Sunderland CC valuer for PPE transactions and balances	All material accounts balances and amounts Sample testing income and expenditure transactions Year-end feeder system reconciliations Fixed asset register

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

Value for money

I am required to reach a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Authority's arrangements is based on two criteria, specified by the Commission. These relate to your arrangements for:

- securing financial resilience – focusing on whether the Authority is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Authority secures economy, efficiency and effectiveness, by prioritising its resources within tighter budgets and improving productivity and efficiency.

Identification of significant risks

In common with all other fire and rescue authorities nationally the Authority faces significant funding reductions over the next three years. The control centre is also nearing the end of its useful life and plans are being developed for its replacement.

I have considered the risks that are relevant to my value for money conclusion, and identified the following significant risks that I will address through my work. Key audit findings and outcomes will be reported in September, as part of my Annual Governance Report.

Table 5: **Significant risks**

Potential risk	Audit response
<p>Financial governance and leadership</p> <p>The leadership team may not fully understand the current financial position and likely future challenges, or may focus on thinking and operating in the short term. There may be poor communication to staff and stakeholders about the Authority's financial risks and</p>	<p>We will review key strategic and financial documents such as the Integrated Risk Management Plan, the medium term financial plan, revenue and capital budgets. We will use our ongoing review of Authority minutes and meetings to assess how financial strategies have been developed and communicated to others.</p>

Potential risk

challenges and the strategies it has in place to tackle them.

Financial planning

Budgets may not reflect the level of savings required to manage expected reductions in funding. Budget setting processes may not be robust. Financial risks may not be properly identified or effectively managed.

Financial control

The Authority may fail to manage its spending within budget or not meet key financial targets. Poor treasury management could lead to additional budget pressures, cash flow problems and non-compliance with Code and statutory requirements.

Prioritising resources

There is a risk that insufficient action will be taken to review priorities and challenge established ways of working in the light of reduced funding. Savings decisions may not be based on adequate, appropriate or up to date information, and may not adequately consider the impact of savings delivery on the public and services.

Audit response

We will review 2011/12 budgets to confirm that:

- assumptions are realistic
- the budget does not rely on short term fixes which are unsustainable
- financial modelling has been used to inform key decisions
- the Authority is taking adequate steps to generate additional income
- appropriate financial planning is in place to replace the control centre by 2013.

We will update our existing assessment of risk management to confirm that the corporate risk register adequately reflects current financial challenges and the possible financial implications of business risk.

We will update our existing assessment of budgetary control and assess budget delivery by a combination of ongoing minute reviews and our opinion work on the accounts. We will also review treasury management processes and the year end treasury management report

We will assess the level of savings delivered to date, and how the Authority intends to deliver spending reductions in the future. We will ascertain the extent to which savings plans have been informed by consultation, cost benefit analysis, option appraisal and similar techniques

We will seek to understand how funding reductions are shifting priorities, resource allocations, and overall levels of spend, and how this compares to other fire and rescue authorities facing similar reductions. To help inform our judgement we will also review year end performance reports and value for money profiles.

Potential risk

Improving Efficiency

The Authority may have limited information on how costs and performance compare with others. It may be unable to justify high unit costs, or have a poor understanding of what drives changes in costs over time. There may be reluctance to challenge the way activities are delivered or to explore new ways of delivering activities, for example through outsourcing or shared service arrangements, or in partnership with others.

Efficiency plans may not be sufficiently challenging or detailed, and may focus on achieving short-term goals or ignore the potential impact of savings delivery on performance. Arrangements to monitor achievement of efficiencies and the impact on services may be deficient.

Audit response

We will confirm that the Authority have continued to:

- participate in benchmarking clubs and analyse unit costs and transactions
- use whole life costing to inform capital spending decisions
- seek out additional sources of income and new models of service delivery
- involve front line staff in identifying and delivering efficiencies
- challenge the way that services and activities are delivered

We will also review the detailed efficiency plans underpinning the budget, to consider how potential projects have been identified and to confirm that:

- the specific projects identified can deliver the savings required
- targets and timescales have been set with key milestones and pathways to set out how they will be delivered
- adequate arrangements are in place to monitor achievement of efficiencies and take early action to tackle any identified slippage

Fees

The fee for the audit is £68,080, as set out in my letter of 21 April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £68,080 which represents an 8 per cent reduction on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements;
- reporting on the Whole of Government Accounts return; and
- my review of your arrangements for securing economy, efficiency and effectiveness in the use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local value for money audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the fee, I have assumed that management processes are not significantly different from 2011/12. Specifically I have assumed that:

- internal controls are operating effectively;
- the Authority maintains an adequate system of financial management
- no significant issues will be raised by local electors
- I will be able, as in prior years, to secure the co-operation of other auditors
- no contentious or complex issues will arise which require me to obtain independent advice
- Internal Audit continues to meet professional standards.

I am also assuming that you will provide:

- good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 1 August 2012;
- other information requested within agreed timescales;
- prompt responses to audit queries; and
- prompt comments on our draft reports.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee. I will discuss this with the Chief Finance Officer in the first instance, and I will issue a supplement to the plan to record any revisions to audit risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I will work with the Authority to help identify any such areas where fee reductions might be possible, and I will give officers advance notice of meeting requests and working paper requirements.

Total fees payable

In addition to the fee for the audit, the Audit Commission will charge fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

No such fees are anticipated for Tyne and Wear Fire and Rescue Authority in 2011/12.

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 6: **Independence and objectivity**

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.</p>	<p>All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.</p>

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards

Appendix 2 – Glossary

Accounting statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Group accounts

Consolidated accounting statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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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.



