

Annual Audit Letter

Merseyside Fire and Civil Defence Authority

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- Auditor's Statutory Report on the Best Value Performance Plan

Reference:	0203 MFCDA Annual Letter 191203 ASig
Date:	December 2003

Key messages

Modernisation

In response to the White Paper '*Our Fire and Rescue Service*' the Authority has embarked upon a major programme of reform. These reforms will see a fundamental change in the way that the Authority provides its services in the future. We shall be reviewing progress during 2004 and working with the Authority as it implements improvements.

Best Value

We have issued an unqualified opinion on the Authority's 2003/2004 Best Value Performance Plan (BVPP). The BVPP is much improved from last year in terms of overall presentation and impact. The statutory recommendations we made last year have been addressed.

The Safety Training Centre (STC)

There is considerable scope for the Authority to improve arrangements to ensure that the STC contributes to the Authority's corporate aims. The Authority needs to address identified shortfalls if it is to make a valuable contribution to the proposed regional approach to training.

Financial Standing

In line with other authorities, the Authority faces significant financial pressures following the national pay agreement in June 2003.

Accounts

The 2002/2003 accounts were produced to a high standard. We issued an unqualified audit opinion on 16 December 2003.

The purpose of this Letter

This Annual Audit Letter to Members summarises the conclusions from our 2002/03 audit. It also reports for Members the significant issues arising from our audit, together with our comments on other current issues.

More detail on the specific aspects of our work can be found in the separate reports we have issued during the year. These reports are discussed and agreed with officers, and the reports we have issued are listed at Appendix 1 for information.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

Background

During 2002/2003, the Authority and the Service have faced a number of challenges, in particular:

- the national pay strike, and its impact upon staff relations and service delivery
- changes in senior management arrangements for legal services and finance
- responding to the modernisation agenda set out in the White Paper, '*Our Fire and Rescue Service*', following the national pay agreement in June 2003
- becoming a pilot site for the draft Comprehensive Performance Assessment methodology in November 2003. In volunteering, the Authority has contributed to one key element of the modernisation agenda at a national level and has received feedback which should help to drive local improvement.

Objectives of our audit

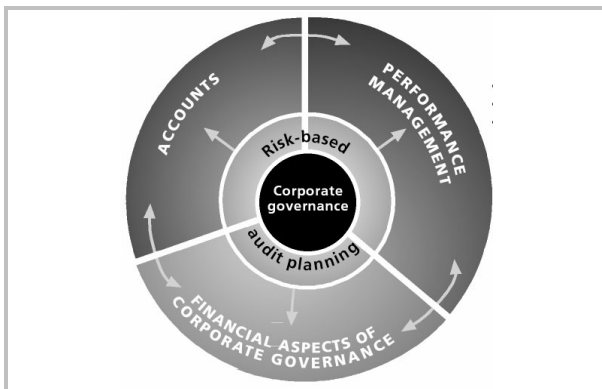
Audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Exhibit 1.

EXHIBIT 1

The three main elements of our audit objectives



Performance management

- Best Value Performance Plan
- Performance information
- Use of resources.

Financial aspects of corporate governance

- Financial standing
- Standards of financial conduct & the prevention and detection of fraud and corruption
- Systems of internal financial control
- Legality of transactions.

Accounts

- Opinion.

Performance management

Best value performance plan

The Authority's Best Value Performance Plan complies in all significant respects with the statutory requirements. Recommendations we made last year have been addressed. We attach an unqualified opinion at Appendix 2.

We have recently completed our audit of your 2003/04 Best Value Performance Plan (BVPP) and our audit opinion and statutory BVPP report are attached at Appendix 2 for information. In last year's Annual Audit Letter we reported that the presentation of the 2002/2003 BVPP was weak and we agreed a number of recommendations with officers, including two statutory recommendations. The key matters we wish to report to Members on the 2003/2004 BVPP are:

- The BVPP is well presented, balanced and informative
- The BVPP complies with legislation and statutory guidance in all significant respects
- The BVPP is much improved from last year in terms of overall presentation and impact, and the statutory recommendations we made last year have been addressed:
 - The layout, style and content of the BVPP have been improved to make it clearer and more accessible to the reader, and fully compliant with statutory requirements
 - Quality review of the BVPP took place before the BVPP was published
- We have shared further detailed findings with officers, and agreed scope for further improvement in future years.

Performance information

Overall we found that adequate systems were in place to produce and publish accurate and reliable performance information. However, there is scope to improve arrangements in some areas and we have issued a report to officers to highlight areas to address in future years.

We carried out our audit of your 2002/03 performance information in conjunction with our audit of your BVPP.

We concluded that adequate systems are in place to produce and publish the Best Value performance indicators. Officers have agreed to amend the website version of the plan to correct for an error identified during our audit, and to make further improvements to secure the completeness and accuracy of PIs in future years.

Use of resources

Review of the Safety Training Centre (STC)

There is considerable scope to improve arrangements for managing the performance of the Safety Training Centre. We understand there are proposals to consider a regional approach to training. In order for the Authority to contribute successfully it is important that effective performance management arrangements are implemented quickly.

We presented a draft summary of key issues to a selected group of managers and summarised our findings in a brief report to the Corporate Management Team (CMT) in September 2003. The key issues are shown in the table below.

EXHIBIT 2

Key issues from our review of the STC

Finding	Conclusion
Lack of strategic planning and direction.	Given regular changes in the STC management teams, there is no continuity planning. There is a risk that new ideas and good initiatives are lost.
Monitoring performance and outcomes is limited.	The Service is unable to assess the quality and effectiveness of training to inform planning.
Merseyside spends more on training than other metropolitan fire authorities (per 1,000 population) ¹ but there is no routine assessment of whether facilities and resources are utilised effectively.	High investment in training may be good practice, provided the Authority ensures value for money.
The objectives of providing training to external organisations are not clearly specified.	There is a risk that providing external courses to meet income targets may impact on ability to deliver courses to meet internal training needs.

1. Source: CIPFA fire service statistics 2001/2002

In response to our report, CMT set up a project team to prepare an initial response to the key issues arising from our review. Timescales for the project have not yet been confirmed.

We will liaise with officers to follow up progress in 2004.

Follow up of previous reviews

The Authority has made some progress in implementing recommendations we have made in previous years. We will continue to track progress in 2004.

Early medical retirements

There has been limited progress in addressing the recommendations we made following our review of planning and control of early medical retirements in 2001/2002:

- Officers have prepared a draft policy but it does not cover all the areas we suggested and has not been approved by the Authority. We understand that finalisation has been deferred pending the outcome of national consultation on changes to the pension scheme order
- The Authority has not yet received any formal reports outlining the full cost implications of early medical retirements, or comparisons with other Fire Authorities. We understand that officers have deferred this in order to properly account for the impact of 'pension buy back clause' in the national pay settlement.

We will continue to track progress in this area in 2004.

Performance management

Generally, the Authority has made good progress in developing service wide planning and a performance management framework. A corporate level planning process is now in place. There is scope to develop formal links to station and individual targets to drive improvement and to review the plan periodically to ensure that it remains relevant.

The BVPP indicates that some progress has been made in implementing recommendations from earlier Best Value reviews. However, there is limited evidence of improvements in performance, following the reviews. This year the Authority did not undertake Best Value Reviews as the requirement to produce the Integrated Risk Management Plan (IRMP) dominated the agenda. The key challenge for the Authority is to ensure that the IRMP drives improvement.

We understand officers are developing formal processes to ensure recommendations from external agencies are implemented.

Financial aspects of corporate governance

Financial standing

There are good arrangements in place for identifying and keeping members appropriately informed of key financial risks facing the Authority. The Authority has generally had a good track record of maintaining balances and reserves at an adequate level based on historical level of spending. However, the Authority faces significant new financial pressures following the national pay agreement.

There are good arrangements in place for ensuring that members are appropriately informed of key financial risks facing the Authority. Some of the headlines affecting the Authority's financial standing are outlined overleaf.

In 2002/2003 the Authority's net expenditure of £64.1m was £2m less than the revised budget. This was attributed mainly to the impact of the strike. As a result the Authority was able to make a £0.8m contribution to reserves.

EXHIBIT 3

Balances and reserves

Reserve	31 Mar 02	31 Mar 03	Comments
Earmarked pensions	£4.2m	£4.1	To meet expected fluctuations in cost of retirements, in particular peaks in 2004/05 and 2008/09 due to recruitment drives in the mid 1970s.
Earmarked other	£0.4m	£2m	Includes: <ul style="list-style-type: none"> • £0.7 to fund future capital projects • £0.5m to fund one off modernisation costs

Reserve	31 Mar 02	31 Mar 03	Comments
General Revenue	£3.2m	£2.5m	Year end balance represents nearly 4% of 2002/03 revenue spend.
Total	£7.8m	£8.6m	10% increase over prior year.

In 2003/2004, the Authority has budgeted for revenue spending of £69.9m, which would require a £0.3m contribution from reserves. However, in line with other fire authorities, Merseyside faces significant financial pressures in 2003/2004 and future years, in particular:

- the pay award, which is higher than the 4% per annum that the Authority had originally budgeted for
- pensions lumps sums, which have been increased as a consequence of the pay settlement.

The Authority is starting to assess the financial impact of the draft IRMP, which is out to consultation. This is likely to have a significant impact on the allocation of resources in the next few years.

It is important that the financial position continues to be closely monitored.

Standards of financial conduct & prevention and detection of fraud and corruption

There are no significant issues arising from our review of overall arrangements. The Authority has taken some steps this year to update governance standards. There is scope to increase the profile of the anti fraud and corruption policy and to be more proactive in following up the results of the national NFI data matching exercise.

An anti Fraud and corruption policy is in place, in line with good practice. However, this has not been disseminated to staff and is not explicit about procedures to be followed when staff receive allegations from a member of the public.

Last year we raised some concerns about arrangements for monitoring gifts and hospitality, and interests, of members and senior officers. This year we have seen evidence that the Authority has tightened control in this

area. We will continue to monitor arrangements in future years.

NFI

The National Fraud Initiative (NFI) is the Audit Commission’s data matching exercise. Its main aim is to help identify and reduce housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud.

The NFI is carried out every two years and data matches were provided to you in January 2003. The Authority was initially slow to respond and, in April 2003, was still waiting for responses from Councils for matches made last year between housing benefit claimants and the Authority’s payroll. However, following our enquiries, the data matches were passed to relevant officers for investigation. We understand that investigations into the data matches are now complete and the exercise has not identified any potential fraud or errors.

We will undertake a more detailed assessment of the Authority’s response to NFI early in 2004.

Systems of internal financial control

Our review did not identify any significant issues to report to Members. We have been able to place reliance on work undertaken by Internal Audit.

The recommendations we made last year in relation to Internal Audit have largely been addressed and a new contract has now been agreed with Liverpool City Council. There is scope to improve the timeliness of the Authority’s response to Internal Audit recommendations.

Risk management

Last year we reported on the lack of formal corporate arrangements for risk identification, assessment and management for all key financial and operational risks. Some progress has been made this year. The Authority has joined the Association of Local Authority Risk Managers (ALARM) and ran an away day for middle managers in May 03. However, there is still much to be done if the Authority is to establish effective risk management arrangements, including:

- Ensure formal identification and assessment of risks
- Map risks to internal controls
- Change behaviour and resources allocation in response to clarifying risks
- Involve members in determining key risks and response
- Develop a risk register, which is reviewed and updated.

The Authority is seeking to review operational risks through the Integrated Risk Management Plan (IRMP), which is currently out to consultation.

Legality of transactions

During the year we reviewed the Authority's overall arrangements for ensuring the legality of its significant financial transactions. We did not identify any areas of concern to report to members.

The Director of Legal Services is proactive in assessing implications of new legislation and assessing the legality of decisions taken by the Authority.

We are kept appropriately informed of any significant issues concerning legality.

Accounts

As in previous years, accounts and working papers are of a high standard. We have completed our review of the 2002/2003 accounts and issue an unqualified opinion on 16 December 2003.

We obtained significant assurance regarding the accuracy of the accounts by reviewing and testing core financial processes, which underpin the accounts: We found that most expected controls were in place and we were able to place reliance on this work in forming our opinion on the accounts.

The working papers supporting the figures in the financial statements were clear and concise. We gave an unqualified opinion on 16 December 2003.

Grant Claims

The Authority has completed and submitted the required grant claim return on time. There are no issues in this area that we wish to raise with members.

Audit fees

The proposed fee for the 2002-04 audit was set out in our audit plan agreed at the start of the audit.

Members should note that in order to bring the Audit Commission financial year in line with the NHS and local authorities, the current plan covers the period from November 2002 to March 2004. In this time we will deliver two statutory audits and two annual audit letters.

In addition to our agreed fixed fee we are required to do additional work to verify the process of reform as required by the White Paper. The table below sets out our latest estimate of the actual fee for 2002-04 on the basis that work remains in progress, together with explanations where there are variances.

EXHIBIT 4

Audit fee update

Audit area	Plan 2002/04	Anticipated actual 2002/04
Accounts	£23,400	£23,400
Financial aspects of corporate governance	£33,423	£33,423
Performance	£43,088	£43,088
TOTAL CODE OF AUDIT PRACTICE AUDIT FEE	£99,911	£99,911
Additional s33 work (1)	£0	£22,500
Certification of grant claims (2)	£1,200	£1,200
TOTAL AUDIT FEE	£101,111	£123,611

(1) Based on fee scale in the Audit Commission's latest guidance. The actual fee will be lower as Merseyside have undergone a pilot in 'CPA' inspection.

(2) The grant claim audit continues until the end of 2004 and the actual fee reported is our current estimate of the likely fee for the 2002/04 certification work.

Future audit work

On 30 June 2003 the Government published the White Paper, 'Our Fire and Rescue Service'. This confirmed the direction of travel for modernizing the service and proposes that we verify the progress during 2004. Key elements of the modernisation agenda include:

- broader role in preventing fire, responding to threats and hazards
- increased focus on community safety reform of institutions and management arrangements
- production of the IRMP
- introduction of an integrated personal development system, including a move from a 'rank to roles' model
- introduction of Comprehensive Performance Assessment (CPA).

We look forward to working with the Authority as it implements the fundamental changes required in the delivery of its services. Our audit programme for 2003/2004 is included in the Audit Plan 2002-2004 which was issued in March 2003. The key areas of audit work to be completed in 2003/2004 are:

- audit opinion
- tracking improvements from previous reviews.

We will discuss the timetable for planning the 2004/05 audit with officers early in 2004.

Status of our Annual Audit Letter

Our Annual Audit Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual Audit Letters are prepared by appointed auditors and addressed to Directors and officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Director or officer in their individual capacity, or to any third party.

Independence

SAS 610 requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on our independence and the objectivity of the audit engagement partner and audit staff. We take this opportunity to confirm that we are not aware of any relationships that may bear on the independence of that audit team that are required to be disclosed to you.

Closing remarks

This Letter has been discussed and agreed with the Chief Fire Officer and the Director of Finance. A copy of the Letter will be provided to all Members and will be presented to the Authority in January 2004.

Finally, I would like to take this opportunity to express my appreciation for the assistance and co-operation provided during the course of the work. Our aim is to deliver a high standard of audit which makes a positive and practical contribution which supports the Authority's own agenda. We recognise the value of your co-operation and support.



Tim Watkinson
District Auditor

December 2003

Reports issued during the 2002/03 audit

Report	Date issued
Audit plan	March 2003
Review of the Safety Training Centre – presentation and summary report	September 2003
Financial aspects of corporate governance	December 2003
BVPP report	December 2003
Final accounts memorandum	December 2003

Auditor's Statutory Report on the Best Value Performance Plan

Auditor's Report to Merseyside Fire and Civil Defence Authority on its Best Value Performance Plan for 2003/04

Certificate

I certify that I have audited Merseyside Fire and Civil Defence Authority's best value performance plan in accordance with section 7 of the Local Government Act 1999 (the Act) and the Audit Commission's Code of Audit Practice. I also had regard to supplementary guidance issued by the Audit Commission.

Respective Responsibilities of the Authority and the Auditor

Under the Act the Authority is required to prepare and publish a best value performance plan summarising the Authority's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Authority is responsible for the preparation of the plan and for the information and assessments set out within it. The Authority is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its plan are derived. The form and content of the best value performance plan are prescribed in section 6 of the Act and statutory guidance issued by the Government.

As the Authority's auditor, I am required under section 7 of the Act to carry out an audit of the best value performance plan, to certify that I have done so, and:

- to report whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Act and statutory guidance and, where appropriate, recommending how the plan should be amended so as to accord with statutory requirements
- to recommend:
 - where appropriate, procedures to be followed in relation to the plan
 - whether the Audit Commission should carry out a best value inspection of the Authority under section 10 of the Act
 - whether the Secretary of State should give a direction under section 15 of the Act.

Opinion

Basis of this opinion

For the purpose of forming my opinion whether the plan was prepared and published in accordance with the legislation and with regard to statutory guidance, I conducted my audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out my audit work, I also had regard to supplementary guidance issued by the Audit Commission.

I planned and performed my work so as to obtain all the information and explanations, which I considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with statutory requirements.

In giving my opinion I am not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Authority. My work therefore comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy me that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.

Where I have qualified my audit opinion on the plan I am required to recommend how the plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

Opinion

Unqualified opinion

In my opinion, Merseyside Fire and Civil Defence Authority has prepared and published its best value performance plan in all significant respects in accordance with section 6 of the Act and statutory guidance issued by the Government.

Recommendations on referral to the Audit Commission/ Secretary of State

I am required each year to recommend whether, on the basis of my audit work, the Audit Commission should carry out a best value inspection of the Authority or whether the Secretary of State should give a direction.

On the basis of my work:

- I do not recommend that the Audit Commission should carry out a best value inspection of Merseyside Fire and Civil Defence Authority under section 10 of the Act
- I do not recommend that the Secretary of State should give a direction under section 15 of the Act.



Signature _____ Date 19 December 2003

Tim Watkinson, District Auditor