

Government and Public Sector

May 2007

Cambridgeshire and Peterborough Fire Authority

2007/08 Audit Plan

The Members
Scrutiny and Performance Committee
Cambridgeshire and Peterborough Fire Authority
Service Headquarters
Hinchingsbrooke Cottage
Brampton Road
Huntingdon
PE29 2NA

May 2007

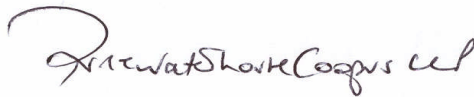
Ladies and Gentlemen,

We are pleased to present to you our Audit Plan, which includes an analysis of key risks, our audit strategy, reporting and audit timetable and other matters. Discussion of our plan with you ensures that we understand your concerns and that we agree on our mutual needs and expectations to provide you with the highest level of service quality. Our approach is responsive to the many changes affecting Cambridgeshire and Peterborough Fire Authority.

We would like to thank members and officers of the Authority for their help in putting together this Plan.

If you would like to discuss any aspect of our Audit Plan please do not hesitate to contact either Julian Rickett or Karen McIntosh.

Yours faithfully,



PricewaterhouseCoopers LLP

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In March 2005 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and of audited bodies’. It is available from the Chief Fire Officer. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement.

Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

Introduction

The purpose of this Plan

Our Audit Plan has been prepared to inform the officers and Members of Cambridgeshire and Peterborough Fire Authority (the Authority) about our responsibilities as your external auditors and how we plan to discharge them.

Every Authority is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the Members and officers of the Authority. Our principal objective is to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code).

Based upon discussion with management and our understanding of the Authority and the local government sector, we have noted in the next section recent developments and other relevant risks. Our Plan has been drawn up to consider the impact of these developments and risks.

We would like to thank Members and officers of the Authority for their help in putting together this Plan.

Period covered by this plan

We provide you with details of our plans for the audit at the beginning of the financial year. This Plan outlines our audit approach for 2007/08, including the 2007/08 final accounts audit which we will undertake in summer 2008.

Code of Audit Practice and Statement of responsibilities of auditors and of audited bodies

We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code). This is supported by the Statement of Responsibilities of Auditors and of Audited bodies (the Statement). Both documents were issued in March 2005 and are available from the Chief Fire Officer.

The purpose of the Statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the Authority in certain areas.

Our reports follow the Statement and are in line with the Code. Although reports may be addressed to officers or members of the Authority, they are prepared for the sole use of the Authority. Auditors do not have responsibilities to officers or members in their individual capacities or to third parties who choose to place reliance upon the reports from auditors.

Relationship management

Nationally, for all principal local authorities, the Audit Commission has appointed relationship managers to co-ordinate audit and inspection work, and provide a direct link between the Authority and the Audit Commission. Therefore, the relationship manager is an Audit Commission employee, and your own relationship manager is Nigel Smith.

In practice, the relationship manager and the appointed auditor will work closely together to deliver audit and inspection work and report the findings of that work to you.

Risk assessment

Planning of our audit

We have considered the Authority's operations and have assessed the extent to which we believe there are potential business and audit risks. We consider an audit risk to be the risk that we may reach an inappropriate opinion on the financial statements or on your arrangements for the use of resources. We have considered our understanding of how your control procedures mitigate these risks. Based on this assessment we have scoped our core work in each of these areas.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our Plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

In this Plan we detail those areas which we consider to be significant risks relevant to our audit responsibilities and our response to those risks. Our response explains where we are intending to rely upon internal controls, other auditors, inspectors and other review agencies and the work of internal audit, if applicable.

Risk assessment results

The following table summarises the results of our risk assessment of both significant financial and operational risks facing you and our planned response.

Business risks	Audit approach
<p><u>Senior Management Change</u></p> <p>We are aware that the Authority is in the process of interviewing for the post of Chief Fire Officer following the retirement of the existing Chief Fire Officer, due later in 2007.</p> <p>It will be important for the Authority to put succession management arrangements in place to ensure that the handover from the former to the new Chief Fire Officer is efficient and effective and appropriate management arrangements are maintained throughout the process.</p>	<p>We will keep this situation under review.</p>
<p><u>Change in Internal Audit Providers</u></p> <p>From 1 April 2007, the Authority has changed its internal audit service provider. It will take time for the new internal auditors to become familiar with the working practices and controls in place within the Authority.</p> <p>It will be important to ensure that the Authority maintains the assurance it receives from its internal audit function.</p>	<p>We will liaise with Internal Audit regarding the audit programme for the year and, as applicable, will undertake a review of the internal audit service and individual audits performed.</p>
<p><u>Efficiency Planning</u></p> <p>As part of the Fire Use of Resources 2006/07 assessment, we noted that the Authority had limited plans and processes in place to ensure the capture of all efficiency savings within the Authority.</p> <p>The Authority will need to demonstrate improved performance in this area to improve its scoring in relation to the Value for Money (VFM) theme under the Use of Resources Assessment. In addition, it will be important for any efficiency procedures implemented to be fully integrated into existing budgetary and performance management processes.</p>	<p>We are liaising with the Authority regarding the implementation of formalised efficiency processes and procedures.</p> <p>We understand that the Authority is looking to adopt a regional approach in relation to efficiency planning. We would happy to provide any assistance in this area as appropriate.</p>
<p><u>Revaluation Reserve</u></p> <p>The Local Government Statement of Recommended Practice (SORP) relating to 2007/08 accounts will require a new UK Generally Accepted Accounting Practice (GAAP)-compliant revaluation reserve as part of the balance sheet. This will require revaluation gains for individual assets to be recorded and information on depreciated historical cost to be maintained and processed in preparing the statement of accounts. Whilst the details of how the opening balances should be set up have not yet been finalised (e.g. it might involve the use of zero balances or other standard valuations), it will nevertheless be important to start putting systems in place that are capable of providing the accounting information that will be required as soon as possible, even if the basis for opening balances is not yet known.</p>	<p>We will discuss the new requirements with you further once they have been finalised and review the plans and arrangements that you intend to put in place to meet these new accounting requirements.</p>

Our approach to the audit

Code of Audit Practice

Under the Audit Commission's Code there are two aspects to our work:

- Accounts including a review of the Statement of Internal Control (SIC); and
- Use of Resources.

We are required to issue a two-part audit report covering both of these elements.

Accounts

Our Accounts audit is carried out in accordance with our Accounts Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and present fairly the financial position of the Authority. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Our audit approach is based on gaining a thorough understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk. This involves breaking down the accounts into components. We assess the risk characteristics of each component to determine the audit work required.

We will adopt a top-down, controls-based approach to the audit, where we will drill down the management structure and review key business processes. We will focus our work on verifying, evaluating and validating, where possible, the controls you use, to ascertain how much assurance we can draw from them. We will supplement this controls work with detailed analytical review procedures and additional substantive tests where necessary.

We aim to rely on the work done by internal audit wherever possible. We are aware that from 1 April 2007, the Authority changed its internal audit service provider. We will liaise with the new internal auditors (IA) and ensure that a dialogue is maintained with them throughout the year. We will establish a protocol for the receipt and review of copies of all relevant internal audit reports and working papers, to allow us to understand the impact of IA findings on our planned approach.

Use of Resources

Our Use of Resources Code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This conclusion will be based on criteria, which the Audit Commission has published separately and which cover key areas of corporate performance management and financial management arrangements.

When forming our conclusion we will seek to rely on:

- Your self assessment against the criteria;
- Your Internal control mechanisms;
- Any relevant work of internal audit, inspectors and other review agencies;
- Work performed in respect of other Code requirements and mandatory work required by the Audit Commission; and
- Targeted audit work to address specific risks and validate arrangements in place at the Authority, as necessary.

As noted above, our conclusion will be issued as part of the audit report on your 2007/08 financial statements.

Mandatory work for 2007/08

Fire Use of Resources

We will be required to carry out work at the Authority for the 2007/08 Comprehensive Performance Assessment (CPA) in respect of the use of resources.

The use of resources assessment is a key part of CPA and will be conducted in all authorities. It involves judgments on financial reporting and management, internal controls, and financial standing. It will also provide a value for money (VFM) judgment drawing on a self-assessment by the Authority. It focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Authority's priorities and improve services.

The Audit Commission defines the scope and methodology for the work required to form the use of resources assessment and the links between this judgement and the work to support our conclusion on proper arrangements to secure economy, efficiency and effectiveness in the use of resources

(described above).

Best Value Performance plans (BVPP)

We will review the 2007 BVPP to assess whether it complies with statutory guidance.

Fire Data Quality Reviews

For 2006/07 we were required to undertake a high level review of the Authority's management arrangements for securing data quality. It is unclear at this stage whether we will be required to carry out a data quality review at the Authority for 2007/08.

We will provide you with further details once the scope of any work has been finalised.

Whole of government accounts

We will be required to review and report on the Authority's Whole of Government Accounts (WGA) consolidation pack 2007/08.

Our team and independence

Audit Team	Responsibilities
Engagement Partner <i>Julian Rickett</i> <i>Julian.Rickett@uk.pwc.com</i>	Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, Audit Memorandum and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.
Engagement Manager <i>Karen McIntosh</i> <i>Karen.McIntosh@uk.pwc.com</i>	Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, Audit Memorandum and Annual Audit Letter.
Performance Specialist <i>Howard Burton</i> <i>Howard.Burton@uk.pwc.com</i>	Manager on the audit responsible for co-ordinating the use of resources audit programme including preparing and presenting reports.

We will hold periodic meetings with you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team's awareness and understanding of your requirements.

Our team members

It is our intention that staff work on the audit each year, developing effective relationships and an in depth understanding of your business. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters. There are no matters which we perceive may impact our independence and objectivity of the audit team.

Relationships and Investments

Senior officers should not seek or receive personal financial or tax advice from PwC. Members who receive such advice from us (perhaps in connection with employment by a client of the firm) or who as a director for another audit or advisory client of the firm should notify us, so that we can appropriate conflict management arrangements in place.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Authority, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Communicating with you

Communications Plan and timetable

ISA (UK&I) 260 'Communication of audit matters with those charged with governance' requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' are the Scrutiny and Performance Committee. Our team works on the engagement throughout the year to provide you with a timely and responsive service. Below are the dates when we expect to provide the Scrutiny and Performance Committee with the outputs of our audit.

Stage of the audit	Output	Date
Audit planning	Audit Plan	June 2007
Audit findings	Internal control issues and recommendations for improvement (if applicable - may form part of the Audit Memorandum)	May / June 2008
	Statement of Accounts Report to Management	September 2008
Audit Reports	Auditor Use of Resources Assessment to inform the Audit Commission CPA process	March 2008
	Audit Memorandum incorporating specific reporting requirements under Auditing Standard (ISA (UK&I) 260), including: <ul style="list-style-type: none"> • Any expected modifications to the audit report • Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust • Material weaknesses in the accounting and internal control systems identified as part of the audit • Our views about the qualitative aspects of your accounting practices and financial reporting • Any other relevant matters of governance interest and • Summary of findings from our use of resources audit work to support our value for money conclusion. 	August / September 2008
	Opinion on the Financial Statements and conclusion on the Authority's arrangements for its Use of Resources	September 2008
	Audit Letter 2007/08	September 2008

We understand that the Audit Commission will produce a short audit and inspection letter summarising the results of audit and inspection work including the annual assessment to support the CPA process. This will be sent to the Authority and will be available to the public.

Indicative audit fees

Our budget is presented below in accordance with our Code of Audit Practice headings. The Audit Commission has provided indicative audit fee levels for Authority's for the 2007/08 financial year, which depend upon the level of expenditure and risks faced.

However, we are awaiting further guidance as to the scope of our work in relation to data quality. At this stage, therefore, we have not included any fee for the data quality work. As a result our proposed fee is indicative and may be subject to change. The proposed fee is broken down as follows:

	2007/08	2006/07
Accounts	45,500	43,500
Use of Resources	17,000	23,000
Total	62,500	66,500
Whole of Government Accounts	2,300	1,850

Our fee for the accounts budget includes your audit of the 2007/08 BVPP. We have included an increase in this fee as a result of the additional work we consider will be necessary arising from the changes to the revaluation reserve.

Our fee for use of resources work includes the following:

- Assessment of the Authority against the Use of Resources criteria contained within the Code of Audit Practice;
- A high level review of the Authority's arrangements for securing data quality. We are awaiting further guidance on the scope of our work in this area. For the purposes of establishing an indicative fee we have assumed that our work will follow the same process as that of the prior year; and
- Follow up of previous work.

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from your management controls;
- We are able to place reliance on the work of inspectors and internal audit in respect of our use of resources conclusion;
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;

- You providing a fully supported and robust self assessment against the use of resources criteria; and
- Our use of resources conclusion and accounts opinion being unqualified.

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed in advance with you.

Our fee for the Whole of Government Accounts is based on the fees we incurred in the prior year. These fees were charged to the Audit Commission in the prior year. However we understand that, for 2007/08, this will be funded by audited bodies.

Appendix A: Other engagement information

The Audit Commission appoint us as auditors to Cambridgeshire and Peterborough Fire Authority and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors

There are five further matters which are not currently included within the guidance, but our firm's practice requires that we raise with you.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee

that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or Richard Sexton, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

ISA (UK&I) 560 places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.

Freedom of Information Act

In the event that, pursuant to a request which the Authority has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The Authority agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the Authority shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the Authority discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

