

Government and Public Sector

September 2008

Cambridgeshire and Peterborough Fire Authority 2007/08 Report to those charged with governance

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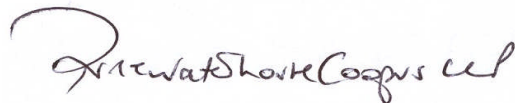
17 September 2008

Ladies and Gentlemen

2007/08 Report to those charged with governance

We are pleased to present our report on the results of our audit work for 2007/08. We hope that the information contained in this report provides a useful source of reference for members.

Yours faithfully



PricewaterhouseCoopers LLP

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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

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.

Executive summary

The purpose of this report

This report summarises the results of our audit work from our 2007/08 audit of accounts.

It includes the issues arising from our audit of the financial statements and those issues which we are formally required to report to you under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA(UK&I)) 260 - "Communication of audit matters with those charged with governance".

It also includes the results of the work we have undertaken on 'Use of Resources' under the Code of Audit Practice, to support our formal conclusion in this area.

Our work was performed in line with the plan that we provided to you in May 2007 and presented to the Scrutiny and Performance Committee on the 6 September 2007.

We have set out below the most important issues and recommendations that we have discussed with you in the course of our work.

Financial Statements

The draft accounts produced for audit were not to the standard of previous years. Our initial review of the draft Statement of Accounts 2007/08 identified a number of matters for which adjustments / additional disclosures

were required (page 6).

We have encountered some difficulties in auditing the draft accounts as a result of errors identified. This has resulted in greater audit input being required, which may impact on the audit fee. We will review our fees following the completion of our audit work and report any variations to the Treasurer and the Scrutiny and Performance Committee at following the completion of our audit work (page 6).

The majority of work on the Authority's accounts has been completed. Subject to the satisfactory conclusion of the outstanding work, we anticipate issuing an unqualified audit opinion on the Statement of Accounts 2007/08 (pages 6 and 7).

We have identified four qualitative matters which we bring to the attention of Members. These relate to:

- A miscoding of ill health pensions contributions made in 2006/07;
- An un-reconciled difference on the Cash Flow Statement;
- A lack of approval of a policy on Minimum Revenue Provision; and
- A misstatement relating to an accrual made for services provided which relate to 2008/09 (pages 7 and 8).

Use of Resources

Under the Code of Audit Practice we are required to provide a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. This conclusion is reached by assessing the Authority's arrangements against a set of criteria issued by the Audit Commission. We intend to issue an unqualified use of resources conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. This means that adequate arrangements are considered to be in place, across the 12 criteria set by the Audit Commission, for the year ended 31 March 2008 (pages 9 and 10).

Financial statements

Accounts

The Authority approved a draft set of accounts prior to the deadline date of 30 June 2008 and provided an auditable set of accounts to us in accordance with the agreed audit timetable.

The draft accounts presented for audit were not to the standard of previous years. Our initial review of the draft Statement of Accounts 2007/08 identified a number of matters where amendments were required, the main issues being:

- The increase in cash on the Cash Flow Statement did not agree to the movement in cash on the Balance Sheet;
- The Statement of Recommended Practice (SORP) for 2007/08 required that new accounting arrangements and disclosures be made within the draft accounts in relation to financial instruments. There were no disclosures in the draft accounts in relation to financial instruments – it was therefore not clear whether the appropriate accounting treatment had been adopted within this area;
- There were no notes to demonstrate the movements between the opening and closing balances for the Revaluation Reserve and the Usable Capital Receipts Reserve. Again, these disclosures are required by the SORP; and

- No comparative (2006/07) figures had been disclosed in relation to the Fire-fighter's Pension Fund Account.

A number of other minor adjustments and comments were also made and reported to the Director of Resources at the commencement of our audit. Following review of our comments, the Authority has agreed to make the appropriate adjustments to the draft accounts 2007/08.

As a result of the above issues and difficulties in auditing the pensions figures within the draft accounts, the audit of the accounts has required greater resource than originally anticipated, which may ultimately impact on the audit fee. We are not currently able to assess the impact of this but will review the fees following the completion of our audit work. We will discuss any variations with the Treasurer and report the results to the Scrutiny and Performance Committee at its next meeting.

We have completed the majority of the audit work on the Authority's accounts in line with the Code of Audit Practice and Auditing Standards. The main areas where audit work is outstanding relate to:

- Receipt of confirmation from the actuary regarding our queries in relation to reconciling the employer's contributions made by the Authority to the actuary's report;
- The completion by the Authority of a reconciliation between the management accounts and the draft accounts.

- PwC review of the Cash Flow Statement – the audit work on this statement has been undertaken and is awaiting review. We are currently in the process of undertaking this review;
- Follow-up of a small number of queries raised from PwC review of audit work;
- Detailed review of the latest set of draft accounts to ensure all amendments have been appropriately processed;
- Consideration of subsequent events; and
- Completion of internal PwC quality control procedures.

There may be both quantitative and qualitative issues arising from the audit work on the above areas. However, subject to satisfactory completion of the outstanding work above, we anticipate issuing an unqualified audit opinion on the 2007/08 financial statements.

If, in completing this work there is a need to amend any of the comments in the remainder of this paper, Members will be updated on the 24 September 2008 at the meeting of the Fire Authority.

Accounting Issues

We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. These misstatements are set out in Appendix A to this report.

Within this appendix, we also bring to your attention the misstatements which have been corrected by management but which we consider you should be aware of in fulfilling your governance responsibilities.

Accounting Practices

We are also required to report to you our view on qualitative aspects of the Authority's accounting practices and financial reporting and have set out below our observations on key issues affecting the Authority.

Pensions – ill-health contributions

The Authority incorrectly miscoded ill-health contributions payable to the Pension Fund in 2006/07. The amount of the miscoding totalled approximately £391,000. As a result of this error, the top-up grant the Authority received from the Government to fund deficit on the Pension Fund was greater than it should have been by the same amount (£379,000).

The Authority has informed the Government of this error and has made arrangements to repay the cash previously received. Correcting transactions are in the process of being made to the Authority's accounts for 2007/08 in relation to the repayment. This has had no impact on the Authority's General Fund balance.

Cash Flow Statement

The Authority has not been able to reconcile its Cash Flow Statement. There is an unreconciled difference of approximately £16,000.

We are currently in the process of reviewing this difference and will provide Members with a verbal update at the Authority's meeting on 24 September 2008.

Minimum Revenue Provision

Following changes to the capital accounting regulations, which apply from 31 March 2008, the Authority is required to determine a policy for its Minimum Revenue Provision (MRP). The new regulations have been brought in to ensure that debt repayment is aligned with the life of assets financed by borrowings.

We understand that the Authority has not approved a policy for its MRP for 2007/08. The charge for MRP in the 2007/08 accounts is based on its previous practice of charging 4% of the Capital Financing Requirement.

The Authority will need to ensure that a policy for MRP is put in place in accordance with the new regulations. We understand that the Director of

Resources will present a paper to the Policy and Finance Committee in November detailing the proposed policy.

Charging 2008/09 expenditure within the accounts

Our audit sampling of creditors identified one item which had been accrued within the accounts that related to services provided in 2008/09. The value of this error amounted to £6,000.

Whilst the Authority has adjusted the 2007/08 accounts for this error, extrapolating the error over the whole value of creditors would give a potential overstatement of creditors and expenditure of £26,000. No adjustments have been made in relation to this extrapolated value.

Based on our work to date, there are no other matters that we wish to bring to your attention.

Systems of internal control

We are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit.

We are pleased to report that we did not identify any high priority controls issues as part of our interim audit work and only identified one new matter where controls could be improved. However, we were disappointed to note that a number of matters raised in prior years have not yet been fully addressed. The details of these matters and our recommendations are included in Appendix B.

We have also identified a number of areas where which management will need to be aware of when producing the 2008/09 financial statements or where procedural improvements can be made. Recommendations arising from our Statement of Accounts 2007/08 work will be reported to the Scrutiny and Performance Committee later in the year.

Other matters

There are no other matters which we wish to bring to your attention.

Use of Resources

Work performed

In accordance with the Code of Audit Practice, we have performed work to conclude on the Authority's arrangements for achieving economy, efficiency and effectiveness in its use of resources. Our work to support our conclusion comprised the following elements.

- Assessing the Authority's performance against the criteria within the Use of Resources conclusion. This included taking into account the Use of Resources Assessment (UoR) for CPA, which covers the following themes:
 - Financial Reporting
 - Financial Management
 - Financial Standing
 - Internal Control
 - Value for Money
- Data Quality Follow-up Review;
- Best Value Performance Plan 2007/08; and
- Review of the Annual Governance Statement.

Use of Resources Conclusion

Under the Code of Audit Practice we are required to provide a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. This conclusion is reached by assessing the Authority's arrangements against a set of twelve criteria issued by the Audit Commission.

Eight of these criteria are linked to the use of resources assessment Key Lines of Enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will usually result in an assessment of "adequate" arrangements for the purposes of the Code criteria.

Our work on the Use of Resources Assessment is currently on-going and due to be submitted for Audit Commission moderation in October 2008. We have agreed a timetable for the receipt of a self assessment and supporting evidence from the Authority in order that we can complete our review. It will be important for this timetable to be adhered to in order that our Use of Resources conclusion can be issued in conjunction with our audit opinion on the Authority's Statement of Accounts 2007/08.

Based on the audit work we have performed to date, there have been no significant matters arising, which we consider will impact on the Use of Resources Conclusion.

If, in completing the work required to provide our use of resources conclusion, any significant matters arise which will adversely impact on the

Use of Resources Conclusion we intend to issue, Members will be updated at the meeting of the Fire Authority on the 24 September 2008.

Data Quality Review

Whilst we are required to perform a mandatory review in relation to data quality as part of our 2008/09 audit work, (which includes assessing arrangements in place during 2007/08), the results of this review are required to be considered in forming our 2007/08 conclusion on the Use of Resources.

The purpose of this work is to assess whether the Authority has adequate data quality arrangements in place.

Our data quality work is in progress and the results will be reported to you when our work has been completed. However, we anticipate that the results of the review will result in an assessment of “adequate” in the Authority’s use of resources conclusion.

Best Value Performance Plan 2007/08

Our work on the 2007/08 Best Value Performance Plan (BVPP), issued by the Authority in June 2007, did not identify any matters to report or recommendations. Our audit report on the BVPP was issued on 7 December 2007.

There are no other matters from this review which we wish to bring to the attention of Members.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by CIPFA / SOLACE. The AGS was included in the Authority’s Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE guidance and whether it is misleading or inconsistent with other information known to us from our audit work.

We found no areas of concern to report in this context.

Other

There are no other matters which we wish to bring to the attention of Members.

Appendix A: Summary of unadjusted misstatements and material adjusted misstatements

We have identified the following error during our audit of the financial statements that has not been adjusted by management. The Authority is requested formally to consider the listed unadjusted error and determine whether the accounts should be amended. If the error is not adjusted we will require a written representation from you explaining your reasons for not making the adjustments. The unadjusted error noted below would have the following impact:

- The deficit on the Income and expenditure Account and the net worth of the Authority would decrease by £4,000; and
- The impact on the General Fund would be nil.

Unadjusted Misstatement	Income and Expenditure Account		Statement of Movement on the General Reserve		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000	Dr £'000	Cr £'000
<p>1. Recalculation of depreciation expense revealed a net understatement of £12,000. The Authority has adjusted for £8,000 of this but the remaining £4,000 has not been adjusted.</p> <p>The entries to correct this error are:</p> <p>CR Fixed Assets DR Net cost of Services</p> <p>CR Statement of Movement on the General Fund Balance DR Capital Adjustment Account</p>	4			4	4	

Unadjusted Misstatement	Income and Expenditure Account		Statement of Movement on the General Reserve		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Net Effect	4	0	0	4	4	4

Appendix B: Matters arising from our review of the Internal Financial Controls 2007/08

2007/08 Matters arising

Ref	Issue and Recommendation	Priority			Management Comments
		1	2	3	
1	<p>We noted a lack of segregation of duties in the following two areas:</p> <ul style="list-style-type: none"> Officers are able to raise an invoice and receive and process the payment. Without segregation of these duties, the risk of irregularity is increased; and Segregation of duties is not present over the distribution of payment cheques and advices. For example, cheques are sent out by Finance staff who also perform payment processing. Distribution of cheque payments/advices should be performed separately to the Finance function (as is the case with BACS remittances). <p><i>The Authority should consider the procedures that can be implemented to increase the segregation of duties in these areas.</i></p>		✓		<p>This control has been subject to internal audit scrutiny and reviewed by the new Head of Finance. Although both have indicated there is a risk, they have also concluded that mitigating checks exist to manage this risk. At present 100% checks by separate people within the finance team are conducted on payment runs.</p>

Follow-up of matters arising from previous years' reviews in respect of internal financial controls

Ref	Original Recommendation and Management Response	Follow up action and further recommendation	Priority			Management Comments
			1	2	3	
1	<p>Lack of evidence of independent review of bank reconciliation</p> <p>Our review of the controls over the bank reconciliation process and discussions with officers noted that whilst an independent review of the completed bank reconciliation is undertaken by the Treasurer, the reconciliation is not subsequently signed and dated. As a result, there is no evidence to confirm the review has been undertaken on a timely basis.</p> <p>In order to ensure that an adequate audit trail is maintained in relation to the independent review of the bank reconciliations, we recommend that the bank reconciliations should be signed and dated as evidence of the review.</p>	<p>Bank reconciliations are still not reviewed and signed by an independent reviewer.</p> <p><i>We reiterate our previous recommendation.</i></p>		✓		<p>Agreed</p> <p>Action to be taken: The finance team is now fully resourced, so this check will be possible.</p> <p>Timescale for action: 30 September 2008</p>
2	<p>Lack of detailed budget setting and monitoring guidelines</p> <p>There are no detailed budget setting or monitoring procedures in place to assist budget holders with their duties.</p> <p>Review of information provided by the Authority noted that general advice is available for budget holders. It is however considered that further details to be more specific, could be provided to budget holders to guide them.</p>	<p>We have noted no significant progress to address this matter.</p> <p><i>We re-iterate our previous recommendation.</i></p>		✓		<p>Agreed.</p> <p>Action to be taken: The Head of Finance is constructing detailed notes for budget holders to include a comprehensive training programme.</p> <p>Timescale for action: 31 March 2009.</p>

Ref	Original Recommendation and Management Response	Follow up action and further recommendation	Priority			Management Comments
			1	2	3	
3	<p>Security access to the payroll (Resource Link) and General Ledger (Dream system)</p> <p>We identified a number of issues relating to the security access controls for the payroll and general ledger systems. In prior years we recommended:</p> <p><i>In relation to the payroll system:</i></p> <ul style="list-style-type: none"> • The system administrator should review all users on the system to verify their identity; • If the system functionality does not permit the forced number of characters for passwords, the system administrator should send out an email to staff requesting them to set a minimum password length of 6 characters each time they change their password; • Management should ensure adequate segregation of duties is achieved via the use of appropriate allocation of access levels within each resource link between payroll and HR; • Access rights should be periodically reviewed to ensure they are commensurate with roles and responsibilities. This review should be documented; and • The password parameter file should be revised to log users out after 3 unsuccessful log in attempts. The user should then request reinstatement from the system administrator. <p><i>In relation to the general ledger:</i></p> <ul style="list-style-type: none"> • The system administrator should set the password parameter to be a minimum of 6 characters and enable Dream to force password change every 30 to 60 days. 	<p>We are pleased to note that the recommendations we made in relation to the payroll system have been addressed fully. Therefore, we have no further recommendations to make.</p> <p>In relation to the general ledger, we have identified that:</p> <ul style="list-style-type: none"> • Passwords are only 5 characters long; and • There is still no forced password changes enabled on the system. <p>From discussions with officers we understand that the Authority has upgraded to the latest version of Dream, (as from November 2007). Part of the new application will enable users to use Windows authentication to gain access. The benefits of this include enforced password changes and streamlining of usernames & passwords.</p> <p>However further work is required to activate this change in functionality. The Authority is planning to carry out this work in the next 3 months. Work will include configuration changes within the application as well as effective communication & training of users.</p> <p><i>We reiterate our previous recommendation in relation to the general ledger system.</i></p>		✓		To access DREAM, a windows password has to be entered which is changed monthly. A DREAM password is required in addition, so no further action is considered necessary.

Ref	Original Recommendation and Management Response	Follow up action and further recommendation	Priority			Management Comments
			1	2	3	
4	<p>Fixed Assets</p> <p>There is no process in place to verify the existence of plant and equipment on the Fixed Asst Register. One way in which finance would become aware of a disposal of some equipment, would be the receipt of monies which they would have to agree to documentation. They also monitor equipment purchases through the property and equipment replacement programme.</p> <p>We would further recommend, considering that finance may not be informed of equipment disposals, that periodic sample checks of the fixed asset register are undertaken in order to verify their existence.</p>	<p>There are still no procedures regarding equipment disposals, nor have there been periodic spot checks of the fixed asset register.</p> <p><i>We re-iterate our previous recommendation.</i></p>		✓		<p>Agreed.</p> <p>Timescale for action: 31 March 2009.</p>

