

Government and Public Sector

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Cambridgeshire & Peterborough Fire Authority

2006/07 Audit Letter

The Members
Scrutiny and Performance Committee
Cambridgeshire & Peterborough Fire Authority
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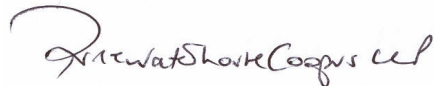
20 December 2007

Ladies and Gentlemen

2006/07 Audit Letter

We are pleased to present our report on the results of our audit work for 2006/07. We hope that the information contained in this report provides a useful source of reference for members. It has been produced prior to the issue of the joint Audit and Inspection Letter, expected to be issued by the Audit Commission in March 2008, so that the results arising from our work to date are communicated on a timely basis for the benefit of Members.

Yours faithfully



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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.

Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2006/07 audit work we have undertaken at Cambridgeshire & Peterborough Fire Authority.

The matters reported here are those that we consider are most significant for the Authority.

Scope of work

Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, including the statement on internal control. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and the production and publication of an annual best value performance plan.

As auditors we are responsible for:

- Forming an opinion on the Statement of Accounts and the Authority's statement on internal control;
- Forming a conclusion on the arrangements that the Authority has in

place to secure economy, efficiency and effectiveness in its use of resources;

- Forming an opinion as to whether the Best Value Performance Plan complies with statutory requirements; and
- Undertaking any other work specified by the Audit Commission.

Our 2006/07 audit work has been undertaken in accordance with the Audit Plan that was presented to the Performance and Scrutiny Committee in September 2006.

Executive summary

Key matters

We are required, under the Audit Commission's Code of Audit Practice (the Code), to issue an annual Audit Letter to the Authority on completion of our audit, demonstrating that the Code's objectives have been addressed and summarising all issues of significance arising from our work. As in the previous year, we will be producing a joint Audit and Inspection Letter with the Audit Commission's Relationship Manager when the results of the Audit Commission's Direction of Travel Statement 2007 has been finalised. We anticipate that this will be presented to Members in March 2008.

We have produced this interim Audit letter in order to report the most important results arising from our work to date on a timely basis for the benefit of Members.

Our Audit Plan 2006/07 set out the risks that we identified as part of our audit planning, together with the targeted work that we planned to perform in order to address these risks. We have issued a number of reports during the audit year, detailing the findings from our work. We have included a list of the reports we have issued during the year within Appendix A.

We have set out within the following table what we consider to be the key issues arising from our audit work.

- We were pleased to note that we only identified two new matters from our review of the Authority's internal financial controls. However, we re-raised a number of recommendations made in previous years. This included two recommendations which we classified as high priority. These related to improving the access controls to the general ledger and ensuring that work was completed on the implementation of a comprehensive business continuity plan/disaster recovery plan. Appropriate actions to address our recommendations were agreed with officers. It will be important for Members to ensure that progress on the agreed recommendations is being made (page 7).
- As in the prior year, we issued an unqualified audit opinion on the Statement of Accounts 2006/07 (page 7).
- The Authority should ensure that it prepares carefully for the changes to the Statement of Recommended Practice (SORP) in 2007/08, prior to the end of the financial year, and continues to liaise with us on matters arising (page 8);
- The Authority should ensure that it has arrangements in place to prepare its accounts and Whole of Government Accounts schedules in accordance with International Financial Reporting Standards, conforming to timetables communicated by central government (page 8);
- We issued an unqualified opinion on the Authority's Best Value Performance Plan 2006/07 and 2007/08 (page 10).

- In 2006 and 2007, the Authority is considered to be performing well ('3' score) in relation to all five themes of the Fire Use of Resources Assessment. Whilst there has been no change to the scores between the two years, we did identify that some improvements were made, including the production of summary financial statements and the implementation of improved procedures for the Statement on Internal Control (pages 10 to 12).
- We issued an unqualified use of resources conclusion in September 2007 stating that we were satisfied that, having regard to the criteria for fire authorities issued by the Audit Commission, in all significant respects, the Authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2007. This was an improvement over the prior year, where we issued a qualified 'except for' conclusion (page 12).
- For the first time in 2006/07, we were required to undertake work to assess whether adequate arrangements were in place for securing data quality. Our review identified that overall the Authority had adequate arrangements in place. However, we noted some areas for improvement – including the need to implement a corporate structure to data quality and a more robust control process – which we agreed with management and reported to the Authority (pages 12 and 13).

Accounts

Accounts

Under the Code of Audit Practice, we are required to perform audit work to enable us to issue an opinion on the Authority's Statement of Accounts.

Our work in this area includes:

- Considering the internal financial controls in place during the year, including IT control environment; and
- Performing an audit of the Statement of Accounts of the Authority, in accordance with approved Auditing Standards.

Internal Financial Controls

Our majority of our work on the Authority's internal financial controls was completed in April 2007. We were pleased to note that we identified only two new matters from our work, which we have reported within our reports "International Standard on Auditing (ISA) 260 Report to those Charged with Governance" and "Report to Management on the Statement of Accounts 2006/07".

We also followed up the matters that we raised in previous years. We identified a number of matters which had not been fully addressed and as a result we re-raised our recommendations. This included two high priority recommendations relating to the need to improve security access controls to the general ledger system and to complete work started on ensuring that a

comprehensive business continuity plan/disaster recovery plan can be put in place.

We have agreed an appropriate course of action in relation to all the matters and recommendations we raised within our reports. It will be important for Members to continue to ensure that progress on all the agreed recommendations is being made.

Statement of Accounts 2006/07

We issued an unqualified opinion on the Authority's Statement of Accounts 2006/07 on 28 September 2007.

The draft accounts presented to us in July were of a reasonable standard. Overall, the Authority responded well to the significant changes required to the presentation of the accounts in 2006/07, compared to the prior year. The Statement of Recommended Practice (SORP) 2006 included the following key changes:

- The replacement of the Consolidated Revenue Account with an Income and Expenditure (I&E) Account and reconciliation of the surplus/deficit on this account to the general fund;
- Inclusion of a Statement of Total Recognised Gains and Losses;
- Removal of the asset management account and capital charges; and

- Re-statement of prior year comparatives, where applicable.

We identified two matters in relation to the new SORP changes where improvements were required within the Authority's draft accounts. These related to the inclusion within the Income and Expenditure Account of profits / losses on disposals of assets and the need to provide disclosure explaining the reasons for, and impact of, the restatement of prior year comparatives. We discussed this with the Treasurer and updates were made to the accounts to appropriately address these matters.

Our initial review of the draft accounts noted a number of presentational matters where improvements were required. These were discussed with the finance team and amendments to the accounts were made. In addition, we identified two unadjusted misstatements which we reported, within our *ISA 260 report to those charge with governance*, to the Scrutiny and Performance Committee for its consideration on 6 September 2007.

During our audit we identified some detailed matters where improvements could be made. We have included these within a report to management which we recently issued and is therefore currently in draft awaiting management responses. We have agreed a timetable for receipt of responses with management and expect to issue a final report early in January 2008.

Looking ahead to 2007/08, further changes to accounting presentation and practice will be needed in response to the SORP 2007. This will include changes in the fixed asset restatement reserve and accounting treatment for fixed asset revaluations and disposals. In addition, there will be the new application of the financial reporting standards relating to the accounting for financial instruments. The Authority will need to ensure that it prepares carefully for these changes, prior to the end of the financial year.

The public sector is also beginning to implement International Financial Reporting Standards (IFRS), although an implementation date has not yet been formally agreed for local government accounts. However, NHS bodies and central government will need to prepare their financial statements using the standards in 2008/09, complete with prior year comparatives. Therefore,

although implementation in local government accounts will be later than this, the Authority's whole of government accounts (WGA) schedules will need to be prepared on this new basis from 2008/09. The Authority will need to ensure that it has arrangements in place to prepare its accounts and WGA schedules in accordance with IFRS, conforming to timetables communicated by central government.

Whole of Government Accounts (WGA)

Our work on Whole of Government Accounts (WGA) involves providing an opinion on whether the WGA consolidation pack is consistent with the Authority's Statement of Accounts.

2006/07 was the second year that the Authority was required to submit a WGA consolidation pack to the CLG (Communities and Local Government).

We provided a 'consistent with accounts' opinion on 28 September 2007. This was prior to the deadline for the submission of the audited WGA consolidation pack to CLG of 1 October 2007.

Financial Standing

In this section we comment upon the Authority's general financial standing taking into account both its performance during the last year and its ability to meet known financial obligations.

Financial Performance

The Members of the Policy and Finance Committee have been provided with regular updates of the Authority's financial performance throughout the year. The provisional revenue outturn for 2006/07 was presented by the Treasurer to the Policy and Finance Committee on 21 June 2007. This reported an under-spend of £25,000, after transfers to reserves had been made. Explanations of significant over/underspends were provided within the report.

Only minor changes, (amounting to a net balance of £12,000), were made to the provisional outturn within the Statement of Accounts 2006/07 as a result of our audit work.

Capital

The Authority reviewed and approved its capital budget for 2006/07, which amounted to £1.4m. Minor revisions were made to the capital programme for 2006/07 during the year, however, the total budget remained at £1.4m overall.

The capital outturn as reported within the Statement of Accounts amounted to £0.9m. This was reported to the Policy and Finance Committee on 21 June 2007 - the report noted that at the year end its 2006/07 capital programme was 67% complete. The capital programme was not completed at the year end as a result of delays in the receipt of goods ordered prior to the year end. We understand that the completion of the 2006/07 programme has been rolled forward into 2007/08.

Reserves

The balance on the Authority's general reserve has increased by £0.2m during the year. As at 31 March 2007 the balance on the general reserve amounted to £1.7m, representing 4.9% of net operating expenditure and 6.7% of the Authority's net expenditure. We are aware that during the year the Authority has reviewed the levels of its reserve against its reserve policy and has approved plans to utilise £0.35m of the general reserve over the next five years. The Authority will need to continue reviewing the levels of its reserve to ensure it remains appropriate going forward.

The balance on the Authority's earmarked reserves has increased from £1.2m at 31 March 2006 to £1.7m at 31 March 2007. This increase mainly resulted from a contribution made to fund costs anticipated to be incurred in future years on fire appliances and the redevelopment of the Parkside site.

In overall terms, the Authority continues to maintain good control over its financial resources and this is reflected in its Use of Resources assessment score within the Financial Standing area and key line of enquiry 2.2 – "The council manages performance against budgets".

Use of Resources 2006/07

Introduction

During 2006/07 we performed the following work under our responsibility to consider the Authority's arrangements for ensuring economy, efficiency and effectiveness in its use of resources:

- Review of the Best Value Performance Plan;
- Use of Resources Evaluation;
- Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources;
- Data Quality Review; and
- Statement on Internal Control.

Best Value Performance Plan

Under the Local Government Act 1999 we are required to carry out a review of the Authority's Best Value Performance Plan (BVPP) in accordance with Section 7 of the Local Government Act 1999 and separately issue to the Authority a statutory report in accordance with the requirements of the Act.

Our work on the Authority's BVPP 2006/07 was undertaken in December 2006. We issued our report on the Authority's BVPP in December 2006. We made no statutory recommendations. This was consistent with the prior year.

Prior to 2006/07, our review of the BVPP included the need to audit the Authority's Best Value Performance Indicators (BVPIs) included within the plan. This requirement was removed for 2006/07 and instead replaced by a review of arrangements to secure data quality (we provide further detail on this below).

We have also completed our work on the Authority's 2007/08 Best Value Performance Plan and we issued our report on 7 December 2007. Again, no statutory recommendations were made. There are no significant matters arising from the review which we wish to bring to the attention of members.

Use of Resources Assessment

The Use of Resources assessment is undertaken by us on behalf of the Audit Commission and contributes to the overall rating of the Authority under the Comprehensive Performance Assessment (CPA). We must assess the Authority's performance in each of five areas:

- Financial Reporting;
- Financial Management;
- Financial Standing;
- Internal Control; and
- Value for Money.

Each of these five areas consists of a number of key lines of enquiry (KLoE) against which a score, or performance level, must be reached. These translate into the following assessments:

- 1 = below minimum requirements – inadequate performance
- 2 = only at minimum requirements – adequate performance
- 3 = consistently above minimum requirements – performing well
- 4 = well above minimum requirements – performing strongly

The score for each KLoE then determines the overall score for each area, using rules issued by the Audit Commission. The Audit Commission will determine the overall use of resources score by combining our separate scores for each of the themes covered, using a set of rules which they have published in their October 2005 report 'CPA – the harder test'.

The 2006/07 Use of Resources assessment was largely undertaken in November and December 2006, in respect of the year to that date, and the results were reported to the Authority in March 2007.

Following a change in the Audit Commission's timetable, the 2007/08 Use of Resources assessment took place mainly in September to November 2007 and was in respect of the financial year ending March 2007. In accordance with the Audit Commission's timetable the results of the assessment were issued to the Authority in December 2007. Our draft report detailing the results, findings and our recommendations was also issued at this time. We present within the following table a summary of the assessments for the KLoEs.

Key line of enquiry	2007/08 KLOE score	2006/07 KLOE score
Financial reporting: overall score <ul style="list-style-type: none"> ▪ The Authority produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers. ▪ The Authority promotes external accountability. 	3 3 3	3 3 3
Financial management: overall score <ul style="list-style-type: none"> ▪ The Authority's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities. ▪ The Authority manages performance against budgets. ▪ The Authority manages its asset base. 	3 3 3 2	3 3 3 2
Financial standing: overall score <ul style="list-style-type: none"> ▪ The Authority manages its spending within the available resources. 	3 3	3 3
Internal control: overall score <ul style="list-style-type: none"> ▪ The Authority manages its significant business risks. ▪ The Authority has arrangements in place to maintain a sound system of internal control. ▪ The Authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business. 	3 3 3 2	3 3 3 2
Value for money: overall score <ul style="list-style-type: none"> ▪ The Authority currently achieves good value for money. ▪ The Authority manages and improves value for money. 	3 3 2	3 3 2

Due to the change in the assessment timetable, the Authority only had a

little time in order to formulate and implement the improvements necessary to address any areas for improvement noted in the 2006/07 assessment. As a result a number of the recommendations we made in the prior year assessment have again been raised in this year's assessment. However, some initiatives to address 2006/07 improvement were noted and these included:

- The production of summary financial statements;
- The formalisation of a policy on reserves which is being monitored by Members in considering the appropriateness of the balances on the general reserve; and
- The implementation of new procedures for the accountability for the Statement of Internal Control amongst senior officers.

Although the improvements have not result in improved assessment scores, they strengthen the Authority's underlying performance and provide a basis for further improvement in the 2008/09 assessment.

Our detailed recommendations for improvement are currently in draft awaiting management agreement. We expect to finalise this report in January 2008. We will include a summary of the main findings and recommendations from our review within our Audit Letter 2007/08.

Use of Resources Conclusion

Under the Code, we are required to conclude on the adequacy of the Authority's arrangements for ensuring economy, efficiency and effectiveness in its Use of Resources. In reaching this conclusion, we are required to have regard to twelve Code of Practice criteria published by the Audit Commission. Eight of these criteria directly relate to key lines of enquiry within the 2007/08 Use of Resources assessment (see above). Another directly relates to our assessment of the Authority's management arrangements for securing data quality, undertaken as part of the 2007/08 data quality review we have performed on behalf of the Audit Commission. This is commented upon in further detail below.

For 2006/07, we issued an unqualified use of resources conclusion on 29

September 2007 stating that we were satisfied that, having regard to the criteria for other local government bodies issued by the Audit Commission, in all significant respects, the Authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2007. Further detail is included within Appendix B.

This is an improvement on the prior year where we provided a qualified 'except for' conclusion as a result of inadequate arrangements for the management of the Authority's asset base (criteria 11).

Data Quality Review work

2006/07

In 2006/07 we were required to undertake a mandatory review for the first time of the Authority's arrangements for securing data quality. Our data quality review 2006/07 took place in September 2006.

During our review we identified that overall the Authority had adequate arrangements in place. However, we noted some areas for improvement which we reported to the Authority. The main recommendations made during this review related to the need to:

- Consider implementing a corporate structure to data quality to allow the Authority to demonstrate improved value for money from its data arrangements by providing clearer links between its inputs (e.g. investment in new systems) and outputs (e.g. improved data quality); and
- Consider improving the links between the principles involved in information management, as detailed within the Authority's business development strategy, to policies in place at an operational level (e.g. sickness absence policy) This may assist the Authority in developing its operational level performance management arrangements, a key finding of its last Comprehensive Performance Assessment;
- Ensure that a business continuity/disaster recovery plan is put in place which sufficiently covers all business aspects and provides protection for records and performance data that are vital to the effective functioning of the organisation;

- Review the resources in place for data quality so that it can demonstrate relevant training provision and the linkages to its data framework; and
- Implement a more robust control process to enable officers to demonstrate the risks associated with their data and introduce any safeguards which may be required.

We agreed and reported our findings and recommendations with management within our letter 'Data Quality Assessment' in October 2006.

2007/08

In order to conclude on one criterion within the Use of Resources conclusion 2006/07, we are required to take into account the results of the Data Quality Review 2007/08, (which includes assessing arrangements in place during 2006/07). The Data Quality Review 2007/08 is a mandatory review designed to assess the arrangements put in place to secure quality of data within the Authority.

Our review has been completed and we are in the process of compiling the report of our draft findings and recommendations to management. We aim to issue this report shortly. We will include a summary of the main findings and recommendations from our review within our Audit Letter 2007/08.

Statement on Internal Control

The Authority is required to produce a Statement on Internal Control (SIC) in accordance with the Accounts and Audit Regulations 2003 and Statement of Recommended Practice, and include it within the Statement of Accounts.

We reviewed the SIC to consider whether it complied with the requirements and whether it was misleading or inconsistent with other information known to us from our audit work.

There are no matters resulting from our review that we wish to draw to the attention of Members.

Audit Plan and Fees 2006/07 Update

Audit Plan and Fees 2006/07 Update

Since we issued our Audit Plan for 2006/07, which was presented to the Scrutiny and Performance Committee in September 2006, we have the following updates to the plan to report:

- We have performed appropriate procedures for each of the risks identified in our Audit Plan of 2006/07. We use this Audit Letter to comment only on those areas where we believe we need to communicate these with those charged with governance; and
- At the time our Audit Plan was approved, we were awaiting further guidance from the Audit Commission regarding the scope of our work. Following the release of this information, we agreed a fee for our Code of Practice work with the Treasurer. The details of the budgeted fee are included below.

Following the completion of our 2006/07 audit work, we provide within the following table, an update on our 2006/07 fees:

	2006/07 Budgeted Fee (£)	2006/07 Actual Fee (£)
Accounts	43,500	43,500
Use of Resources (Assessment and Conclusion)	17,000	17,000
Data Quality	6,000	6,000
Total Code of Practice Fee	66,500	66,500

In addition to our Code of Practice work, we are also required to certify the Authority's Whole of Government Accounts. The Audit Commission issues guidance regarding the expected fee range for the audit of Whole of Government Accounts. For 2006/07, this range was £1,430 - £2,870. During our audit we identified some amendments which were made to the draft Whole of Government Accounts. As a result, our fee for this work was above the minimum fee level at £1,850.

Appendix A: Audit Reports Issued

The following audit reports were issued during 2006/07 and 2007/08:

- Auditor's Statutory Report on the Best Value Performance Plan 2006/07;
 - Data Quality Review 2006/07;
 - Fire Use of Resources - Assessment Results 2006/07;
 - International Standard on Auditing (ISA) 260 Report to those Charged with Governance 2006/07;
 - Audit Report on the Statement of Accounts 2006/07;
 - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources 2006/07;
 - Certification on the Whole of Government Accounts 2006/07; and
 - Auditor's Statutory Report on the Best Value Performance Plan 2007/08.
- The following reports have been issued in draft:
 - Report to Management on the Statement of Accounts 2006/07;
 - Fire Use of Resources - Assessment Results 2007/08.

● The following report is expected to be issued in draft shortly:

- Data Quality Review 2007/08.

Appendix B: Use of Resources conclusion

The Audit Commission has published 12 Code of Practice criteria on which auditors are required to reach a conclusion on the adequacy of an authority's arrangements for economy, efficiency and effectiveness in its Use of Resources. There are only two assessments – 'adequate' and 'not adequate'. The results on our assessment of each criteria are noted below:

Code Criteria	Description	Use of Resources Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control	Adequate
6	The body has put in place arrangements to manage its significant business risks.	Adequate
7	The body has put in place arrangements to manage and improve value for money.	Adequate

Code Criteria	Description	Use of Resources Conclusion
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	Adequate
10	The body has put in place arrangements for managing performance against budgets.	Adequate
11	The body has put in place arrangements for the management of its asset base.	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Adequate

In the event that, pursuant to a request which Cambridgeshire & Peterborough Fire 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. Cambridgeshire & Peterborough Fire Authority agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Cambridgeshire & Peterborough Fire Authority shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Cambridgeshire & Peterborough Fire 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.

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