

Annual Audit Letter

**Buckinghamshire and Milton Keynes Fire and Rescue
Authority**

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of the financial statements (pages 3 to 4);**
and
- **my assessment of arrangements to achieve value for money in the use of resources (pages 5 to 8).**

Audit opinion and financial statements

1 I issued an audit report including an unqualified opinion on the financial statements on 24 September 2010. I found several errors in the draft financial statements. The Authority corrected the significant items and approved revised financial statements before I gave my opinion.

2 I reported to those charged with governance (in this case, the Overview and Audit Committee) on the issues arising from the 2009/10 audit, including the need to improve journal authorisation.

Value for money

3 I gave an unqualified conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources when I gave my opinion on the financial statements.

4 However I raised concerns about the arrangements for managing risks and internal control procedures in my annual governance report.

Current and future challenges

5 The Authority faces major challenges. These include responding to the government's Spending Review announced on 20 October 2010. This will require all public sector bodies across the country to make large financial savings and will mean a 25 per cent reduction in resources for Fire and Rescue Authorities over the next four years.

6 Like other local government authorities, the Authority must prepare financial statements for 2010/11 based on International Financial Reporting Standards (IFRS). It has a project plan for putting IFRS in place. This is on track and is scheduled to meet all the statutory deadlines for financial reporting in 2010/11.

Financial statements and annual governance statement

The Authority's financial statements and annual governance statement are an important means by which it accounts for its stewardship of public funds. I gave an unqualified opinion on the Authority's 2009/10 financial statements on 24 September 2010, within the statutory target date.

Overall conclusion from the audit

7 I issued an audit report including an unqualified opinion on the financial statements on 24 September 2010. This included an unqualified opinion on the firefighters' pension fund.

8 I identified several errors in the financial statements adopted by the Audit Committee on 22 June 2010. I reported these in my annual governance report and the significant items were amended and revised accounts approved before I gave my opinion. The main amendments were:

- writing off an old VAT debtor balance of £37,000, as this did not represent real income;
- gross reporting of the upward revaluation and downward impairment in the fixed assets movements note 12; and
- adjustments for impairment of land and buildings due to further movements in valuation.

9 I accepted the Treasurer's explanation as to why the Authority had decided not to amend two remaining non-material errors in the statements.

Accounting practice and financial reporting

10 In performing my audit I consider the quality of financial reporting. The main issues I reported to those charged with governance concern the valuation and accounting for fixed assets, and the presentation and disclosure of information in the financial statements.

11 Problems in auditing fixed assets included:

- accounting for fixed asset revaluations and the audit trail; in particular the fixed asset records for revaluation accounting entries were not clear and had to be reworked; and
- the valuer's findings on land impairment highlighted a potential issue across the land portfolio; also the Authority had not adequately considered impairment due to market movements during 2009/10.

12 I also identified issues with the presentation and disclosure of information in the financial statements. These matters were discussed with the Treasurer and the required adjustments agreed before I gave my opinion.

Significant weaknesses in internal control

13 I did not identify any material weaknesses in our work on internal controls. I reported other issues arising to finance officers as appropriate.

14 However, because of control weaknesses around accounts payable identified by internal audit, I had to test substantively expenditure going through the accounts payable system. No further issues arose.

15 I also reviewed your Annual Governance Statement and I was satisfied that it complied with proper practice and the disclosures made were consistent with my understanding of the Authority.

Recommendation

R1 The Authority should ensure that it implements the recommendations I made in my Annual Governance Report.

Value for money

I considered whether the Authority is managing and using its money, time and people to deliver value for money.

I assessed performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money conclusion. I gave an unqualified conclusion on 24 September 2010.

2009/10 use of resources assessments

16 At the end of May 2010, the Commission wrote to all Chief Fire Officers to inform them that following the government's announcement, work on the Comprehensive Area Assessment would cease immediately and the Commission would no longer issue scores for its use of resources assessments.

17 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

18 I also report the significant findings from the work I have carried out to support the value for money conclusion.

Value for money conclusion

19 I assessed the Authority's arrangements to achieve economy, efficiency and effectiveness in its use of money, time and people against criteria specified by the Audit Commission. The Commission specifies each year which Key Lines of Enquiry (KLOEs) are the relevant criteria for the value for money conclusion at each type of audited body.

20 Based on this assessment I issued an unqualified conclusion stating that the Authority had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources. Appendix 2 shows a summary of my findings.

21 In my annual governance report I highlighted the limited assurance report from internal audit and expressed my concerns. In the ICT department particularly, the Authority had identified governance and internal control issues, but these appear to be largely confined to this area. The Authority has made changes in the senior leadership team and moved to re-establish an effective control environment.

22 In reaching my VFM conclusion I therefore made a rounded judgement on the adequacy of arrangements for governance and internal control. In doing so I considered the action taken to correct matters, including the increased programme of internal audit cover, and the positive influence of the new senior leadership team. However, the Authority will need to continue to strengthen arrangements and I will review progress in my 2010/11 audit.

Key findings

Managing finances

23 The Authority has a sound track record of managing its finances, and meeting efficiency savings, but there are significant challenges ahead. Financial performance is monitored regularly (including with partners) and the results shared. The Authority has a good understanding of its costs and their drivers. It has processes for identifying efficiencies and savings, and has historically lived within its means, but there remain unrealised opportunities for savings. The Audit Commission national report highlights these opportunities. Internal and statutory financial reporting requirements meet required standards.

Governing the business

24 The Authority has established governance arrangements. There has been significant change in senior management in-year with attendant impact on the control environment. Spot check testing showed arrangements for securing data quality are sound and the Authority is making effective use of information.

25 Internal audit identified some significant internal control issues, but these appear to be confined to the ICT department. Once the issues had been identified, the Authority acted and the Treasurer has commissioned more internal audit work to establish the scope of the problem.

26 In terms of outcome measures I was pleased to note that local people think the Authority provides the best service in the country for domestic emergencies. In a survey of 37 authorities, it achieved 100 per cent approval 'on the scene', 99 per cent overall satisfaction, and control room staff achieved fourth position. It also received a score of 96 per cent for non-domestic properties.

Managing resources

27 The Authority had several areas of strength in its management of natural resources. These included a dedicated budget for carbon management; a green fleet review and revised car lease policy to ensure it uses less polluting cars; improved emergency responses to extreme weather and joint working with South Central Ambulance Service; and joint working with the Environment Agency for hazardous environments and specialist water rescue. The Agency has asked the Authority to help prepare a national protocol on collaborating in preventative work.

Opportunities for improvement

28 In conducting my assessment I have also sought to identify scope for further improvement. Accordingly, the Authority should focus further improvements in its arrangements to secure value for money in the use of resources in the following areas.

Managing finances

- The peer review expressed concern about the Authority's future financial position. This includes capital needs including fire stations, which are ageing and will need refurbishment, replacement or rationalisation.
- Savings from the proposed Rostering for Duty programme were not achieved. A different approach was used instead, but some areas in the original proposal could have produced extra savings. However the representative body was fundamentally opposed to those aspects of the project.
- There is more scope for linking performance target reporting to financial management, and for review of operational performance data by the CFO or Executive Committee.
- Aspects of financial reporting during final accounts could be improved specifically in relation to the accounting for fixed assets. I also found more amendments were necessary this year.

Governing the business

29 As a result of the issues arising in the ICT department, the Authority is reshaping the internal audit coverage in 2010/11: there will be fewer high level reviews and more in-depth audits of specific areas.

30 Other areas for improvement include:

- the Authority must revisit its IRMP to ensure it is realistic and sustainable;
- the Authority monitors codes of compliance etc but this information is not reported to a public meeting;
- not all partnership arrangements have agreements;
- potential fraud has not previously been seen as a significant risk;
- officer induction was at the discretion of line managers and not mandatory; and
- peer review described the Authority as trying to do too much and not having a clear set of over-arching priorities governing its activity.

Managing resources

31 A good start has been made in thinking about environmental factors. However I found there was room for improvement in managing the workforce:

- a previous vacancy freeze resulted in crew shortages and the Authority then had to engage in extra recruitment;
- the Authority did not meet the service standard for retained appliances availability (95 per cent);
- more needs to be done to embed diversity and equality; and
- training needs improvement.

Recommendation

R2 The Authority should consider the costs and benefits of those areas for improvement identified by my use of resources review and develop plans to address the priority improvement areas.

Approach to local value for money work from 2010/11

32 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders about possible new approaches to local value for money audit work. The Commission aims to introduce a new, more targeted and better value approach to our local value for money audit work.

33 I will base my work on fewer reporting criteria, specified by the Audit Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

34 I will determine a local programme of value for money audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer provide an annual scored judgement for my local value for money audit work. Instead I will report the results of all this work, and the key messages for the Authority, in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Spending review

35 The Authority faces major challenges. The new coalition government announced details of its spending plans for the next few years on 20 October 2010 in the Comprehensive Spending Review (CSR). It will require all public bodies across the country to make significant financial savings.

36 There will be a real terms reduction in fire resource expenditure. A CLG briefing note states: 'the reduction in formula grant funding for Fire and Rescue Authorities will be 25 per cent over the spending review period. To give Fire and Rescue Authorities time to make the necessary changes without affecting the quality and breadth of services to communities, the reduction is back-loaded to 2013/14 and 2014/15'.

37 It will be important in this time of major change for the Authority to consider and respond to the following issues.

- The resilience of medium-term financial strategies and the capacity to deliver significant efficiency savings.
- The need to keep enough management capacity to influence and respond to changes in patterns of demand for services.
- The need to preserve proper standards of governance through changes in the way services are provided.

Economic climate

38 The Authority has historically been a low cost body with a low precept. During 2009/10 the Authority took part in a Pathfinder project helmed by Buckinghamshire County Council aimed at making savings eg through running back office functions jointly with local authorities throughout the county.

39 However most of the areas of joint interest did not come to fruition. This means that the Authority will need to look at other ways of working jointly with partners to maximise savings to the public sector. The local ambulance trust is already sharing some sites with the Authority.

40 The economic downturn - including the effects of the CSR - is still putting the Authority under pressure. Budget monitoring during 2009/10 identified issues and corrective action was taken. It is continuing to monitor financial performance closely in-year and taking rectifying action where possible. After three months of 2010/11 (and before the CSR) it was forecasting an underspend for the year of £463,000 or 1.6 per cent of budget. It has rescheduled loans to take advantage of historically low interest rates.

International Financial Reporting Standards

41 Like other local government bodies, the Authority must prepare financial statements based on International Financial Reporting Standards (IFRS) for 2010/11. The transition to IFRS is challenging. The financial impact will vary widely from one body to another but the broader implications are wide-reaching. IFRS is not just a technical accounting issue for the finance team as there are wider process and systems changes to consider across the organisation. Significant preparatory work is essential.

42 During the year the Audit Commission conducted two national surveys of preparedness for the introduction of IFRS, in October 2009 and July 2010. My assessment at both stages was that the Authority's 'traffic light' status was green because:

- it had a robust project plan;
- was making good progress in addressing its key areas;
- is getting professional advice where appropriate; and
- had by stage 2 briefed members of the Audit Committee on project progress;

43 In making the survey return I did identify some areas, including the accounting for leases and employee benefits, which I will need to examine in more detail in my 2010/11 audit.

44 In summary, the Authority has recognised the challenges posed by IFRS and has a project plan for putting IFRS in place. This is on track to meet the deadlines for financial reporting in 2010/11. In addition the Audit Committee has been kept informed of the impact of changes on the financial statements and how these are being addressed. This scrutiny should be maintained through restatement and reporting stages.

Recommendation

R3 The Overview and Audit committee should take a proactive role in monitoring the progress towards IFRS implementation and approval of new accounting policies.

Closing remarks

45 I have discussed and agreed this letter with the Chief Fire Officer and the Director of Finance and Treasurer. I will present this letter at the Overview and Audit Committee on 9 December 2010 and will provide copies to all Authority members.

46 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Authority during the year.

Report	Date issued
Audit plan	March 2009
Opinion audit plan	April 2010
Annual governance report	September 2010
Opinion on the financial statements	September 2010
Value for money conclusion	September 2010
Annual audit letter	November 2010

47 I can confirm the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence. The fees for my audit are levied in accordance with guidance issued by the Audit Commission. The audit fees are detailed in Appendix 1.

48 The Authority has taken a positive and helpful approach to our audit. I wish to thank Members, management and staff for their support and cooperation during the audit.

Phil Sharman
District Auditor

29 November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£48,800	£42,900	£5,900
Value for money conclusion	£30,400	£30,400	£0
Whole of government accounts	£2,480	£2,480	£0
Rebasing adjustment	(£4,275)	(£4,275)	£0
Total	£77,405	£71,505	£5,900

I found it necessary to apply a modest increase in the audit fee because of two areas where I needed to perform extra audit work:

- substantive testing on accounts payable, because internal audit found weaknesses in internal control; and
- additional work on accounting for fixed assets, as I found significant errors, uncertainties and an unclear audit trail.

The additional fee is levied at a discounted rate.

Appendix 2 VFM conclusion

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes
Strategic asset management	N/A in 2009/10
Workforce	Yes

Appendix 3 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

Appendix 4 Action Plan

Recommendations

Recommendation 1

The Authority should ensure that it implements the recommendations I made in my Annual Governance Report.

Responsibility	Director of Finance
Priority	High
Date	Each recommendation has its own deadline.
Comments	The Authority has agreed all these recommendations. Some have already been done, and actions are in hand to address the other matters raised.

Recommendation 2

The Authority should consider the costs and benefits of those areas for improvement identified by my use of resources review and develop plans to address the priority improvement areas.

Responsibility	Director of Finance and Deputy Chief Fire Officer
Priority	High
Date	March 2011
Comments	Part of the medium-term financial plan for 2011/12. It will set out costs and benefits of different aspects of service provision against priorities. It will also be refined when the IRMP is relaunched.

Recommendation 3

The Overview and Audit committee should take a proactive role in monitoring the progress towards IFRS implementation and approval of new accounting policies.

Responsibility	Director of Finance
Priority	High
Date	Immediate
Comments	Further reports will be forwarded to the committee to update them on progress against the IFRS project plan and to highlight any risks.

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