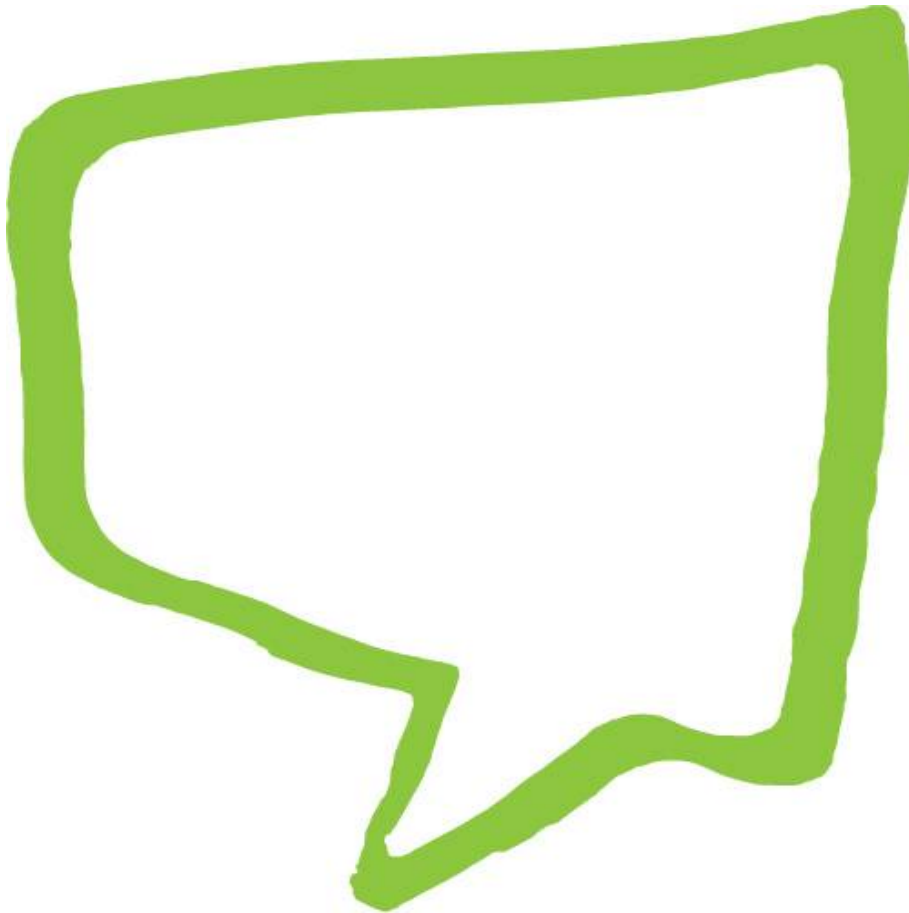


Opinion Audit Memorandum

Buckinghamshire and Milton Keynes Fire Authority

Audit 2008/09

December 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
 - any third party.
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Introduction

- 1 The main issues arising from the audit of the Authority's final accounts for 2008/09 were addressed in the Annual Governance Report which went to the Audit Committee on 15 September 2009, and the 25 September 2009 Authority meeting. We were able to sign off the accounts by the due deadline of 30 September 2009.
- 2 This memorandum sets out the detailed issues arising from our interim audit and the final accounts audit which either:
 - underlay the issues brought to the attention of those charged with governance; or
 - did not need to be addressed by those charged with governance, but on which officers needed to take action.
- 3 Our findings are listed in an action plan in the attached Appendix. This action plan is a discussion draft which aims to include all the issues which arose during the audit for completeness.
- 4 The findings are not individually significant issues but instead highlight areas for improvement in controls and final accounts preparation.

Appendix 1 – Action plan – audit findings

File ref	Finding	Recommendation	Priority	Response	Target Date and Responsible Officer
	Issues brought forward from the 2007/08 audit				
EX.2	No detailed guidance on the correct treatment of VAT has been issued to staff who process both sales and payables invoices.	Implement procedures to ensure that detailed VAT guidance is cascaded to finance staff with day-to-day processing responsibilities.	Medium	This is now on the intranet and a draft of the guidance has been reviewed by a peer authority and users.	GM Capital July 2009
	2008-09 system audit issues				
EX.3	The walkthrough testing of the fuel management system revealed that adjustments to stock are not countersigned by a supervising officer. However there was only one adjustment in-year, involving delivery to the wrong tank, and the adjustment was correct.	Implement for adjustments to stock as a control against error or potential fraud.	Low	Any fuel stock adjustments are counter-signed by the GM Procurement.	GM Procurement and Fuel Officer Dec 2009
EX.5	There is no evidence of the originator's check on sales invoices prior to them being issued, and therefore that the control is actually in place and working. We found no evidence of controls on completeness of billing, ie how the authority ensures that all income due is actually billed. An example of this was noted from review of the Fuel Management System.	Consider how to evidence controls to ensure that all income due is billed and that there are accuracy checks in place for the raising of invoices.	Medium	Recurring invoices for aerial sites are produced automatically each quarter. A review of all billing processes will be conducted to ensure adequate controls are in place.	Done ----- GM Capital March 2010

Appendix 1 – Action plan – audit findings

File ref	Finding	Recommendation	Priority	Response	Target Date and Responsible Officer
EX.15	Not all corporate staffing returns are being sent to payroll on a timely basis as evidenced by the master control sheet.	Corporate returns should be sent to payroll in a timely manner.	High	Agreed this is cultural issue that is being addressed.	GM Revenue April 2009
2008/09 final audit issues					
Accounting Policy					
EX.19	There is no accounting policy for the provision of bad debt. The fixed asset accounting policy needs to be clear that the assets are not depreciated in year of acquisition and depreciated in year of disposal. There is a policy entitled provisions and reserves but the accounting policy is all about reserves. There should be a separate policy for provisions if there are any in the accounts.	Include in SoA the policy for provision of bad debt and state clearly the policy on depreciation. Consider having a separate policy for provisions.	Low	Amended in Statement of Accounts. Amended in SOA A separate policy for provisions will be included for the 2009/10 Accounts	GM Revenue DONE Done April 2010
Income and Expenditure					
EX.30	BMKFA have recharged £1,133K of external income to offset expenditure.	This income should be reclassified back to CDC income.		Amended in SOA	Done
SMGFB					
EX.12	The statement of movement on general fund balance refers to 'Write down of deferred charges...'	This should now be referred to as REFCUS and so the heading should read 'Amounts classified as revenue expenditure in accordance with the SORP but which are classified as capital expenditure by Statute'.		Removed in SOA	Done

Appendix 1 – Action plan – audit findings

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	STRGL				
	<p>The STRGL was incorrectly compiled. This was highlighted by the pension accounting entries not flowing through and I&E impairment losses being included.</p> <p>The same format was used in 2007/08 and had been accepted, but in 2008/09 it confused the underlying issues relating to the pensions transactions.</p>	Follow the SORP guidance when compiling the STRGL.		Amended in SOA	Done
	Fixed Assets				
EX.17 EX.35	The authority does not depreciate revalued assets on the basis of the new useful economic life (UEL) in the year of valuation. The new UEL is used from following year and per BMKFA, this issue is due to the way in which SAP operates.	New UELs should be applied in the year of valuation if the valuation date is 1/4/xx.	Medium	Agreed	GM Capital April 2010
EX.22	<p>The valuer did not state in his report the basis on which fire stations have been considered to be a specialised asset.</p> <p>Para 3.124 of the SORP states "Where market evidence of EUV is not available, specialised operational properties should be valued on the basis of depreciated replacement cost. Because a property is specialised, it should not be automatically assumed that market evidence of EUV would not be available. Where there is sufficient evidence to value on the basis of EUV it should be used.'</p>	Ensure that the valuer gives the basis for an asset being specialised by including this request in formalised instructions to the valuer.	High	Agreed	GM Capital April 2010

Appendix 1 – Action plan – audit findings

File ref	Finding	Recommendation	Priority	Response	Target Date and Responsible Officer
EX.34	The accounts did not include an additional disclosure note detailing the valuations of fixed assets carried at current value as required by the SORP.	This note should be included in the accounts. Paras N67 and 68 of the SORP guidance notes (p.195) sets out the requirements for the note.	High	Will be reviewed for 2009/10 SOA if it aids understanding.	GM Capital April 2010
EX.36	The authority does not state the de minimis amount for capital expenditure within their accounting policy.	The de minimis amount of £6K should be included in BMKFA's accounting policy.	Medium	Agreed	GM Capital April 2010
Creditors					
EX.37	BMKFA had included a balance for CO alarms as a receipt in advance, on the basis that this was invoiced on 31/3/09. The cash was not actually received until April 2009, and correspondence showed that it was part of a 2009/10 programme. Also on asking for evidence for a receipt in advance for vehicle funding, we were provided with a document pre-April 2008 which showed what the carried forward amounts for each year were to be. A further request was made for BMKFA to prove spend in-year (to ensure the originally planned carry forward was still valid) but we received nothing further.	<p>Receipts in advance transactions should reflect actual cash receipts in advance. This invoice should not have been raised until 09/10. BMKFA should review this in line with their cut-off procedures.</p> <p>A greater level of evidence to support the validity of receipts in advance balances should be kept.</p>	High	<p>More detailed training for all staff involved with y/end entries will happen for 2009/10 SOA and additional scrutiny before entry on the system.</p> <p>The cut off limit will also be reviewed.</p>	GM Revenue February 2010

Appendix 1 – Action plan – audit findings

File ref	Finding	Recommendation	Priority	Response	Target Date and Responsible Officer
Reserves					
EX.7	<p>All reserves balances in the balance sheet were incorrectly stated as debit balances where only the pension fund balance should be shown this way.</p> <p>The relevant notes in the accounts that support the balance sheet figures are not consistent eg. capital adjustment account note 22 has an opening credit balance of £25,480K and the balance sheet shows a debit balance of £25,481K.</p>	<p>The reserves balances in the balance sheet should be correctly shown as either a debit or credit balance and the corresponding notes should be consistent. This is a presentation matter only.</p>		Amended in SOA	Done
EX.8	<p>The accounts did not include the required SORP disclosures in respect of reserve movements.</p>	<p>Disclose further details of movements in reserves as per SoRP para N92 (p.203).</p>	High	<p>Table of reserves movements fully detailed in Notes 26 and 27 but will be enhanced to aid reader comprehension</p>	<p>GM Revenue April 2010</p>

Appendix 1 – Action plan – audit findings

File ref	Finding	Recommendation	Priority	Response	Target Date and Responsible Officer
	Pensions				
EX.39 and 32	<p>The current service cost in the net cost of services and SMGFB line 'net charges made for retirement benefits in accordance with FRS 17' were understated by £3,074K.</p> <p>This was noted while following the FRS adjustments to the accounts. At first no working papers were provided to prove the pensions liability and reserve. However, we proved these during our audit work, as a result of which the above error became clear. BMKFA had not put through any 'journals' in the accounts on the basis that these transactions were outside the ledger; they had arrived at the liability and reserve on the basis of what the actuaries had said. In proving the reserve and liability, audit highlighted that the top-up grant should go through the pension reserve and liability.</p>	<p>BMKFA need to provide detailed working papers to prove entries and final balances. The actual audit process took longer because they were not provided at the start.</p> <p>All accounting entries should go through SAP in order to maintain a complete record of the accounts. This is intended for 2009/10.</p>	High	<p>Working papers will be enhanced for 2009/10 SOA based on final versions used in 2008/09.</p> <p>SAP entries will be put through for 2009/10 SOA now that County support are able to do the appropriate system development.</p>	GM Revenue May 2010
EX.40	The current service pensions cost has been reallocated on the basis of the firefighters' salaries.	Given that BMKFA also participate in the LGPS, they should consider allocating these costs on the basis of non-firefighters' salaries.	High	We will consider for impact.	GM Revenue February 2010

Appendix 1 – Action plan – audit findings

File ref	Finding	Recommendation	Priority	Response	Target Date and Responsible Officer
EX.24	<p>The following matters were noted on completion of the pensions section of the disclosure checklist.</p> <ul style="list-style-type: none"> • p.59, the table showing reconciliation of present value of scheme assets – the present should be fair. • The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses has been disclosed but the figure is this year's movement. • p.60, the experience adjustments arising on the scheme liabilities should be expressed as a percentage of the liabilities at the balance sheet date and the scheme assets expressed as a percentage of the scheme assets at the balance sheet date. • The actual return on scheme assets (and comparative) should be disclosed. 	<p>The disclosure matters should be addressed.</p>		Amended in SOA	Done
EX.41	<p>A national technical issue was highlighted that when fire-fighters retire on injury, part of the pension is determined by benefits received from DWP but when an individual's circumstances change many FRAs have not had systems to ensure that their pensions are adjusted accordingly.</p> <p>We found that there were 17 BMKFA firefighters in this position but that individual cases had not been reviewed.</p>	<p>BMKFA should ensure that they have procedures to prevent firefighters retiring on injury being overpaid pensions.</p> <p>The authority should consider the need for separate valuations of injury awards to be undertaken.</p>	Medium	<p>This arises from a gap in the review process between the HR department and Pensions section, but there is no financial risk to BMKFA because of the funding arrangements for FF Pensions.</p>	<p>GM Revenue and Head of HR March 2010</p>

Appendix 1 – Action plan – audit findings

File ref	Finding	Recommendation	Priority	Response	Target Date and Responsible Officer
EX.23	The line in the net assets statement 'top up grant received from sponsoring department in excess of requirements' should be removed as its not in line with the SORP disclosure.	As per finding		Amended in SOA	Done
Financial Instruments					
EX.27	£335K of the PWLB loan matures in 2009/10 but it has still been included in long-term borrowing.	The amount maturing should be reclassified to short-term borrowings, along with £71K accrued interest.		Amended in SOA	Done
EX.28	The following disclosure matters were noted: <ul style="list-style-type: none"> Loans and receivables carrying amount and fair value on pg 64 should be £7,211K rather than £6,882K. the maturity analysis should have comparatives. under the maturity analysis there should be a line stating that all trade and other payables are due to be paid in less than one year. 	The disclosure matters should be addressed.		Amended in SOA	Done
Cash flow statement					
	The working papers provided did not show that BMKFA had taken into account opening and closing debtor/creditor balances when compiling their cash flow statement. For example, when calculating employee payments, interest paid and received and purchase of fixed assets. There were three balancing figures in the cash flow statement - other operating costs, cash received for goods and services, and other non-cash items.	BMKFA should ensure that they fully complete the CIFPA template and provide evidence if not in the template to show that they have taken into account opening and closing debtor/creditor balances. They should also attempt to prove the three balancing figures to evidence that they are not materially misstated.		Amended in SOA	Done

Appendix 1 – Action plan – audit findings

File ref	Finding	Recommendation	Priority	Response	Target Date and Responsible Officer
Disclosures					
EX.29	The contingent asset note did not include the outcome of the option notice.	The contingent asset disclosure should be expanded to explain the decision-making behind not exercising the 'buy-back' option.		Amended in SOA	Done
EX.13 and 14	On checking the 2007/08 comparatives back to the actual 2007/08 accounts and on checking internal consistencies, errors were noted.	Ensure that all comparatives are stated correctly in the accounts and that the accounts are internally consistent.		Amended in SOA	Done
Whole of Government Accounts					
	There were several inconsistencies between the WGA return and the audited statements. Some were because of specific items which did not fall into the WGA format and all were below the NAO level of materiality. However we would normally expect the two to be consistent.	Ensure that the WGA return is consistent with the audited statements.		As materiality is £1m for WGA and the template does not allow for SORP compliant entries from the SOA then will endeavour to reconcile the differences but have to comply with the WGA template supplied by HM Treasury.	GM Revenue September 2010

The Audit Commission

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