

Annual Audit Letter

# **Buckinghamshire and Milton Keynes Fire Authority**

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<b>Reference:</b>	BU001 Annual Audit Letter
<b>Date:</b>	January 2005

## Executive Summary

### The purpose of this letter

This is our Annual Audit Letter for 2003/04 which summarises the conclusions and significant issues arising from our recent audit of the authority.

We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed at Appendix 1 for information, together with information about the fees charged. Appendix 2 sets out the scope of audit.

## Key messages

### Authority performance

On the basis of the results of our Phase 1 fieldwork completed in January 2004, an overall assessment of 'some progress' on modernisation was made for the authority.

In the period to January to June 2004 the authority made limited further progress with this agenda. However, it has now recruited three new senior managers to take things forward and has agreed a detailed and clear action plan to implement recommendations from the Phase 2 review. The more significant development needs include:

- grasping the opportunity to integrate the IRMP and IPDS;
- improving communication at all levels both within the authority and with other partners; and
- ensuring that all staff and members understand and are on board with the significant change agenda.

### Other performance

The authority has developed its information and communications technology (ICT) arrangements in recent years and a number of good features have emerged. Our review identified areas where the authority can build on the good work previously done.

The authority needs to strengthen existing Information Security Management controls and to fully document its policies and procedures. We also identified a need for proper operational procedures in the IS department and a need to strengthen existing HR policies and procedures in a number of areas.

### Accounts and Governance

Our work on your financial statements is nearing completion although there are two technical accounting issues which need to be resolved. We expect to issue an opinion in January 2005.

The authority is taking commendable steps in establishing a prudent working balance, and in developing a medium term plan and business planning framework which should serve it well in the future.

Your overall corporate governance arrangements are satisfactory in most key areas. We are concerned that the authority may be trying to do too much too quickly in developing its risk management arrangements and have suggested that a more considered, measured approach would have more chance of being successfully embedded.

### Action needed by the Authority

- Maintain focus on the modernisation agenda to ensure delivery of the actions needed.
- Review information security management and ICT arrangements to meet best practice.
- Reconsider your approach to risk management to ensure that it is effectively embedded across the organisation.

## Authority Performance

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- improving communication at all levels both within the authority and with other partners; and
- ensuring that all staff and members understand and are on board with the significant change agenda.

## Fire service pay and conditions agreement: local verification

The national agreement on fire service pay and conditions, finalised on 13 June 2003, included a condition that:

*'the pay award at stages 2 and 3 are subject to: ...verification by the Audit Commission ...that the intended benefits (including savings) of the various national changes are being delivered locally.'*

This review has been undertaken in two phases corresponding to stages 2 and 3 of the pay award. The aim of the review was to assess progress in the following specific areas:

- Integrated Risk Management Planning (IRMP);
- changing from rank to role;
- the Integrated Personal Development System (IPDS);
- pre-planned overtime;

- alternative duty systems;
- part-time working and other conditions of service;
- the modernisation agenda; and
- the financial aspects of modernisation.

Our local reports have set out the overall progress made, setting out key messages, and identifying good practice and barriers to progress.

### Phase 1

Our Phase 1 fieldwork covered the period to January 2004, and an overall assessment of 'some progress' on modernisation was made for the authority.

There are additional costs of £1.2 million in 2004/05 involved in implementing the new pay award and rank to role, as well as IRMP and IPDS. We recognise that the opportunity to make savings as a result of modernisation may be limited as the authority is already operating at low cost and is restricted in its ability to achieve economies of scale. However, it may be possible to make savings elsewhere, through improved efficiency or as a result of partnerships.

Whilst this report is now some way out of date it is important to recognise that significant good practice was identified including:

- encouraging station commanders to take responsibility for their local area and innovation among local fire-fighters;
- providing community education and working with a range of partners to prevent fires by supporting vulnerable people and targeting young offenders;
- recruiting a new strategic tier of senior management to strengthen governance and human resource managements; and
- developing corporate use of information and communication technologies (ICT).

There were also, inevitably at that time, areas for further development, including the need to develop more outcome-focus in the IRMP, which needed to be consolidated into the authority's strategic and operational planning, offering an opportunity to bring the organisation together as a cohesive unit. It also needed to strengthen its change and project management skills, and ensure consistency in performance management.

The extent of the authority's aspirations were unclear. It had not yet engaged fully with its members, community and staff and, as a result, had neither challenged its current agenda fully nor identified the key things it needed to do to achieve change. Communication was an internal weakness - with individuals, between departments and roles, and in establishing clear corporate governance.

## Phase 2

Our Phase 2 fieldwork covered the period from January to June 2004, and an overall assessment of 'little or no progress' on modernisation was made for the authority.

The authority had made relatively little further progress on the action plan it had agreed from the first phase of our verification study.

A significant factor in this slow down was the period required to recruit to the three new senior manager posts referred to above. In addition to the vacant senior posts, other managers had changed roles, and new posts had yet to be advertised - including three partnership managers who would play a lead role in developing prevention services.

Where progress was made in the period, it was in building steadily on aspects of the modernisation agenda, in agreeing resources changes, and in positioning itself to develop much further. The authority has also played a part in both national and regional partnership working groups associated with modernisation.

The brigade was also well positioned in some diagnostic areas, as a result of its existing track record in both community-based and prevention services. Existing achievements in assessment, training and duty systems also offer substantial building blocks.

Our review identified some significant development needs:

- the need to integrate IRMP and IPDS in a cohesive and meaningful way;
- communication remained an issue, ownership of change was weak, and members had not yet fully engaged in it;
- the brigade had been reacting to national agendas, rather than leading local ones, and remained uncertain of some of its regional and partnership roles; and
- we found a vacuum in response to the brigade's earlier communication about potential change, as well as some deep-rooted concerns about the organisation's style, and its capacity to tackle the future.

These limiting factors were starting to be acknowledged, with the senior team learning to recognise the need to identify the risks involved and to act on wider cultural aspects of change.

Recruits took up three new commander posts in May and June 2004, bringing focus and capacity to a new senior management team, to strengthen governance and performance management; develop training and human resources (HR); and manage a new risk-based service that coordinates response with prevention. The brigade has also made progress with its ICT and HR systems, and led some regional work related to modernisation - including on resilience.

With this additional capacity the authority has since agreed a detailed and clear action plan to take forward the recommendations from Phase 2.

## Other Performance

*The authority has developed its information and communications technology (ICT) arrangements in recent years and a number of good features have emerged. Our review identified areas where the authority can build on the good work previously done.*

*The authority needs to strengthen existing Information Security Management controls and to fully document its policies and procedures. We also identified a need for proper operational procedures in the IS department and a need to*

*strengthen existing HR policies and procedures in a number of areas.*

**ICT arrangements**

The authority is increasingly reliant upon its information systems to support its business requirements.

It is gradually building up its IT resources and experience and is attempting to ensure that an adequate ICT infrastructure and management arrangements are in place. The requirements placed upon organisations by the Data Protection Act 1998, Freedom of Information Act 2000 and the Human Rights Act 1998 are adding to the workload.

The authority is also responding to the Government’s modernisation agenda and in particular implementing electronic government (IEG) process requirements.

It has developed its ICT services in recent years, with the creation of an information systems department and appointment of a Head of Information Systems (IS), and a number of good features have emerged, including:

- agreeing an ICT strategy, and information security policy;
- weaknesses in the area of information governance, eg information security management (ISO17799) are currently being assessed and addressed;
- the authority has been successful in obtaining £50k funding under the IEG process; and
- developing its ICT environment, including installation of a new Wide Area Network.

Our detailed report identified a number of areas where the authority can build on the good work previously done, including the development of contingency plans for its internal systems, disaster recovery plans and a formal project management methodology.

**Information Security Management**

As the use of IT within an organisation grows, so the security risks to systems and facilities increase. The growth of networking, for example, presents new opportunities for

unauthorised access to systems and the information they hold.

We assessed the quality of your measures to safeguard information systems, compared your security practices with similar organisations and measured your level of compliance with the nine areas covered by the International Standard for Information Security (ISO17799).

Our assessment gives the authority an average score of 60 per cent over the nine key control areas reviewed, where an adequate level of compliance is considered to be around 66 per cent.

As would be expected across such a wide range of measures there are areas of good performance and areas which are in need of improvement.

Performance in 9 key areas	
Good	Organisation, Physical Security
Adequate	Business Continuity, Policy
Less than adequate	Compliance, Computers and Networks, Assets, Personnel, System Access.

Our report contained a significant number of recommendations highlighting a number of high priority issues including:

- produce a comprehensive Information Security Policy;
- clarify roles and responsibilities for information security at all levels;
- introduce formal emergency arrangements and procedures to recover from disasters and ensure that they are regularly tested;
- develop formal guidance and documentation for operational procedures on computer and network management;
- document and regularly review information backup, restoration and storage procedures;
- introduce an access control policy; and
- review and test business continuity plans.

**Performance Information**

Our review of the council’s best value performance indicator information for 2004/05 is in progress.

## Accounts and Governance

*Our work on your financial statements is nearing completion although there are two technical accounting issues which need to be resolved. We expect to issue an opinion in January 2005.*

*The authority is taking commendable steps in establishing a prudent working balance, and in developing a medium term plan and business planning framework which should serve it well in the future.*

*Your overall corporate governance arrangements are satisfactory in most key areas. We are concerned that the authority may be trying to do too much too quickly in developing its risk management arrangements and have suggested that a more considered, measured approach would have far more chance of being successfully embedded.*

### Audit of 2003/04 accounts

The published accounts are an essential means by which the authority reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the authority's annual accounts on 27 August 2004.

The authority has achieved the tighter deadline set for completion of the accounts this year. Officers are aware that these deadlines will become increasingly challenging in the future.

We are required by professional standards to report to those charged with governance (in this case the Finance and General Purposes Committee) certain matters before we give an opinion on the financial statements. Our report is due to be considered by the Committee in January 2005, although there are two aspects which need to be resolved before our work can be concluded:

- in our view the accounts do not reflect correctly the transactions relating to the 'disposal' of properties at Beaconsfield and Gerrards Cross fire stations; and
- we need further information to assess whether the transactions are reflected correctly in terms of the new headquarters and related land transfer.

## Financial standing

### Revenue spending and reserves

The authority is taking steps to establish a prudent working balance in its first year as a precepting body. With the agreement constituent bodies it has carried forward previous under spends - £506,000 in total - to assist in the establishment of an appropriate non-earmarked reserve.

As at the end of August, the authority was predicting an under spend of £183,000 for the 2004/05 financial year.

The authority's revenue budget incorporates its policy priorities and is monitored regularly by the Head of Finance. There is also regular reporting to Members which includes an anticipated out-turn position.

Members have agreed a framework for business planning which will be developed further and will feed into the Medium Term Plan and budget preparations for 2005/06.

It is also developing an integrated management system which will reinforce management accountability at all levels within the organisation. It is expected that this will eventually produce a more integrated control, incorporating financial and performance management.

### Systems of internal financial control

Your systems of internal financial control are generally adequate, but could be improved further by documenting procedures for handling breaches of standing orders, and for overriding standing orders or financial regulations.

We have also noted your intention to extend the Integrated Risk Management Plan (IRMP) (which covers operational risks and safety critical issues) to include other possible strategic risks facing the authority.

Our brief overview of progress and proposed next steps found that whilst a considerable level of risk assessment has been carried out at operational level, genuine business risk management is at an early stage of development.

The overall risk management methodology described in the Risk Management Policy Statement is sound. However, there is scope to make it more practical by spelling out more clearly the organisational structure and management arrangements through which the policy will be delivered.

Linking risk management with business planning is the key to achieving an approach which is strategic. This is important to give greater assurance that all significant risks are dealt with in a structured and systematic way.

Overall, we were concerned that the Authority may be trying to do too much too quickly and have suggested that a more considered, measured approach would have far more chance of being successfully embedded.

### **Standards of financial conduct and the prevention and detection of fraud and corruption**

Your arrangements to prevent and detect fraud and corruption could be improved further by:

- finalising your draft anti-fraud and corruption policy;
- developing a formal code of conduct for officers and staff; and
- monitoring Member compliance with the code of conduct.

### **Legality of transactions**

As part of our audit we have been looking into the Authority's disposal of 24 properties in Beaconsfield and Gerrards Cross to a housing association, with the Authority retaining nomination rights.

As the resulting capital receipt will be for less than the unrestricted value of the assets we need to ensure that the authority has discharged its responsibility for achieving 'best consideration' for any disposal. This requirement is set out in section 123 of the Local Government Act 1972 (and the subsequent guidance issued in ODPM circular 06/2003 (Local Government Act 1972 General Disposal Consent (England) 2003).

The authority has written setting out the rationale for the decisions taken, and has been asked to provide appropriate supporting evidence to show how it has met its statutory obligation.

Your framework for ensuring the legality of significant financial transactions could be improved further by:

- agreeing a protocol on when legal advice should be sought; and
- developing a system to evidence when legal issues have been properly considered.

## **Other work**

### **National Fraud Initiative**

The authority took part in the Audit Commission's national fraud initiative (NFI) 2002/03. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Total savings from the 2002/03 exercise exceeded £83 million.

The Commission are repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from authorities. Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by authorities and include payments made to privately run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.

We expect the outcome to be reported in the new year and will report further in next year's Letter.

## Looking Forwards

### Future audit and inspection work

We have an agreed plan for 2004/05 and our findings will be reported in next year's Annual Letter.

We seek to ensure, wherever possible, that our work relates to the priorities for 'modernising' the authority in light of the Government's White Paper 'Our Fire and Rescue Service'.

The authority is due to have a corporate performance assessment carried out in February 2005. We will ensure that, wherever possible that our work relates to the its findings and the improvement priorities when planning our programme of work for 2005/06.

### Revision to the Code of Audit Practice

The Audit Commission has consulted on a revised Code of Audit Practice for application to the audit of the 2005/06 accounts. The new Code, which will be laid before Parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on bodies' corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in the Audit and Inspection Plan for 2005/06.

## Closing remarks

This letter has been discussed and agreed with the Chief Fire Officer. A copy of the letter will be presented at the authority on 14 January 2005.

The authority has taken a generally positive and constructive approach to our audit. I would like to take this opportunity to express my appreciation for the authority's assistance and co-operation.



**Andy Burns**  
District Auditor

December 2004

## Availability of this letter

This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the authority's website.

## Status of our reports to the authority

*Our annual audit letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual audit letters are prepared by appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.*

## Audit reports issued

Report	Date
Audit plan	July 2004
Fire service pay and conditions report: Phase 1	March 2004
ICT arrangements review	June 2004
Fire service pay and conditions report: Phase 2	July 2004
Audit of core processes and financial aspects of corporate governance	September 2004
Information Security Management (ISO17799)	October 2004

## Audit fee

### Audit fee update

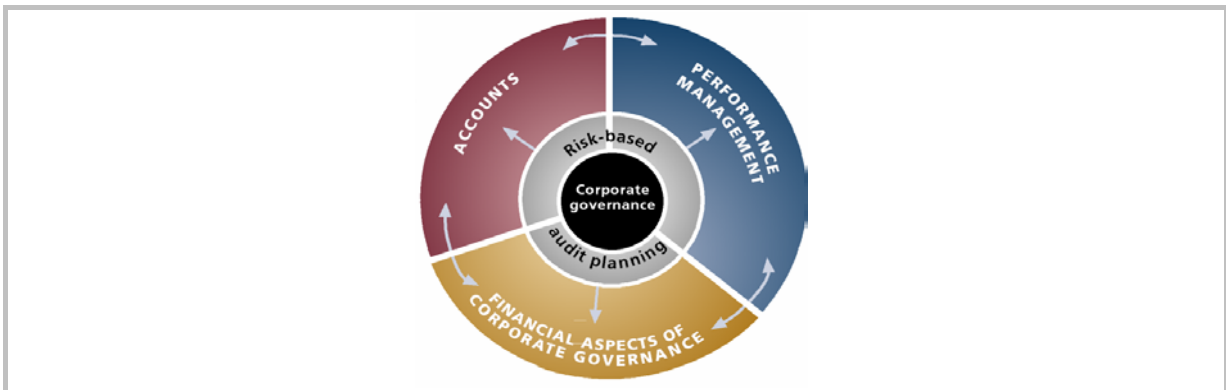
Audit area	Plan 2002/04 (£)	Actual 2002/04 (£)
Accounts	21,800	21,500
Financial aspects of corporate governance	15,540	15,840
Performance	39,000	39,000
TOTAL CODE OF AUDIT PRACTICE FEE	76,340	76,340
Fire service pay and conditions review	20,900	20,900
Fire service pay and conditions review: phase 2	18,150	18,150

## Objectives of audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in below.

### The three main elements of our audit objectives



#### Accounts

- Opinion.

#### Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan.

#### Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct & the prevention and detection of fraud and corruption.
- Legality of transactions.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.