

# **Fire Authority Use of Resources Auditor Judgements 2007**

**Cheshire Fire and Rescue Authority**

**Audit 2006/07**

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## Introduction

- 1 The Use of Resources (UoR) assessment evaluates how well the Authority manages and uses its resources. This is the second assessment we have undertaken at the Authority and is based on the key lines of enquiry for 2007.
- 2 The assessment enables auditors to form judgements on the Authority's arrangements to secure effective use of resources across the five themes of financial reporting, financial management, financial standing, internal control and value for money.
- 3 Each theme consists of a number of key lines of enquiry (KLOEs) and areas of audit focus and evidence. There are also descriptions of performance against each KLOE showing performance levels at 1, 2, 3 and 4. These translate into the judgements as shown in Table 1 below.

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**Table 1 Use of resources scoring**

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

- 4 In forming our assessment, we have used the methodology set out in the Use of Resources Guidance for 2007, which can be found on the Commission's website. We have also taken account of findings and conclusions from the previous years' assessment.

## Summary of scores

- 5 The Authority's self assessment for the 2007 review was realistic and indicated that there was no expectation of improvement to scores across the five themes. This reflected the limited opportunity to secure improvements between the reporting of the 2006 assessment (January 2007) and the end of the period on which the 2007 assessment was based (March 2007). The Authority has maintained the overall performance achieved in 2006 and secured improvement to the score relating to external accountability under the financial reporting theme. We acknowledge that the Authority is achieving improvement across most theme areas. However, the progress is not reflected in theme score increases as processes and policies have in many areas only recently been introduced and it has thus not been possible to assess their contribution to the achievement of better outcomes.
- 6 The overall 2006/07 score and score for each theme is shown below with the comparative for 2005/06.

**Table 2 Cheshire Fire Authority - summary of use of resources scores**

	2006/07 score	2005/06 score
<b>Overall Assessment</b>	<b>3</b>	<b>3</b>
<b>Use of resources themes</b>		
Financial reporting	2	2
Financial management	2	2
Financial standing	3	3
Internal control	3	3
Value for money	3	3

*Source: Audit Commission*

- 7 The next section of this report highlights the main conclusions and areas for improvement at theme level.

## Theme summaries

### Financial reporting

<b>Theme score - 2</b>
<b>Purpose</b>
To assess the strength of the Authority's financial accounting and reporting arrangements.
<b>Key findings and conclusions</b>
<p>The arrangements for the closure and production of the financial statements has improved , but the quality assurance process needs to be strengthened to ensure that future statements fully comply with the requirements of the Statement of Recommended Practice (SORP) and contain only minimal errors and omissions. Further work is needed to ensure that working papers are complete, comprehensive and provide a clear audit trail to the entries in the financial statements. The financial statements submitted to members for approval were accompanied by an explanatory presentation which was an enhancement. The Authority recognises that the process for engaging with members on financial reporting matters can be made more effective.</p> <p>The score for promoting external accountability increased from 2 to 3. The Authority published its accounts and most recent annual audit letter (AAL) in accordance with statutory requirements. However, priority should be given to ensuring that such documents are more visible on the website. General accessibility of the Authority's website is good. The Authority produces an annual report which has been tailored to meet stakeholders' requirements. The summary financial information within the annual report should be developed to make it more analytical and linked to performance.</p>

<b>Improvement opportunities</b>	
<p>KLOE 1.1 The authority produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>	<p><i>R1 Improve quality assurance arrangements to ensure the accounts fully comply with the requirements of the SORP and other applicable accounting standards.</i></p> <p><i>R2 Enable more effective member scrutiny and challenge of the financial statements.</i></p>
<p>KLOE 1.2 The authority promotes external accountability.</p>	<p><i>R3 Give priority to clearly publishing the AAL (and other external audit reports) on the website.</i></p> <p><i>R4 Make the financial information in the annual report more analytical and link it with performance information.</i></p>

## Financial management

<b>Theme score 2</b>	
<b>Purpose</b>	
To assess how well the Authority plans and manages its resources.	
<b>Key findings and conclusions</b>	
There is no significant change to the assessment made in 2006. The arrangements for setting and monitoring the budget remain robust and the Authority has enhanced its arrangements in relation to developing and managing the capital programme and budget. The IRMP and project approval processes are being used effectively to drive resource allocations.	
<b>Improvement opportunities</b>	
KLOE 2.1 The Authority's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.	<p><i>R5 Develop the links between the medium term financial strategy and other key strategies.</i></p> <p><i>R6 Strengthen financial management arrangements with a particular focus on improving capacity and skills.</i></p>
KLOE 2.2 The authority manages performance against budgets.	<p><i>R7 Ensure budget monitoring is clearly risk focussed and related to key operation activity indicators.</i></p> <p><i>R8 Strengthen links between financial and non-financial information and regularly report to members.</i></p> <p><i>R9 Provide budget profiles in budget monitoring reports.</i></p>
KLOE 2.3 The Authority manages its asset base.	<p><i>R10 Complete the review of the capital project business case proforma and implement outcomes, including whole life costing in the appraisal process.</i></p> <p><i>R11 Develop a set of performance measures in relation to assets that focus on evaluating the contribution which assets make towards the achievement of corporate objectives.</i></p>

## Financial standing

<b>Theme score 3</b>	
<b>Purpose</b>	
To assess how well the Authority safeguards its financial standing.	
<b>Key findings and conclusions</b>	
The Authority has effectively managed its spending within budget and achieved planned efficiency savings. Financial health indicators have been developed which provide members with high level assurances. Work is ongoing in relation to enhancing the set and embedding the arrangements for monitoring and challenge by members. Arrangements for informing members of the costs and benefits of maintaining reserves still need further development.	
<b>Improvement opportunities</b>	
KLOE 3.1 The authority manages spending within the available resources.	<p><i>R12 Achieve financial health targets, through effective member monitoring.</i></p> <p><i>R13 Provide further information around the costs and benefits of maintaining reserves at certain levels, to enhance members understanding and decision making.</i></p>

## Internal control

<b>Theme score 3</b>	
<b>Purpose</b>	
To assess the effectiveness of the Authority's control environment and ethical governance arrangements.	
<b>Key findings and conclusions</b>	
There is no significant change to the assessment made in 2006. The Authority has merged its performance and risk management groups to form the performance and risk management group (PRMG), to enable the better integration of the two processes. The risk management processes have been enhanced by creating a financial risk register and consideration of risks associated with regional management board work streams. The Authority finalised its business continuity plan and successfully completed a full simulation exercise, incorporating actions plans developed from lessons learnt.	
<b>Improvement opportunities</b>	
KLOE 4.1 The authority manages its significant business risks.	<p><i>R14 Fully embed business risk management in corporate business processes, following the creation of the new PRMG.</i></p> <p><i>R15 Ensure that positive risks and opportunities are systematically identified and included in risk registers at all levels of the organisation.</i></p> <p><i>R16 Include specific risk management awareness training in the member learning and development programme.</i></p>
KLOE 4.2 The authority has arrangements in place to maintain a sound system of internal control.	<p><i>R17 Undertake regular, robust reconciliations of bank accounts and feeder systems.</i></p> <p><i>R18 Review the terms of reference of the committees which discharge the functions of an audit committee to ensure all functions are covered and clearly allocated.</i></p>

<b>Improvement opportunities</b>	
KLOE 4.3 The authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	<i>R19 Plan and undertake proactive anti-fraud and corruption work, which is determined by a formal risk assessment and is adequately resourced.</i> <i>R20 Specifically consider fraud and corruption in the overall business risk management process.</i>

## Value for money

<b>Theme score 3</b>	
<b>Purpose</b>	
To assess the achievement of value for money and conclude on the robustness of the arrangements to secure improvements.	
<b>Key findings and conclusions</b>	
<p>The Authority can demonstrate a positive balance between costs and performance showing that value for money is provided. Performance compares well with other authorities and public satisfaction levels are high. Increased spending on community safety activity has contributed towards improved achievements in relation to key priorities. Costs continue to be challenged through the IRMP process.</p> <p>The Authority has introduced arrangements to ensure that the capital programme is delivered on time and to budget and priority now needs to be given to ensuring that the process operates effectively.</p> <p>There is a good approach to managing and improving value for money and the Authority is actively engaging with the wider community to ensure services meet local needs. For example, revised crewing arrangements and shift systems have been introduced, enabling costs to be reduced without any deterioration in operational effectiveness.</p> <p>The Authority is implementing a more strategic approach to procurement which is starting to deliver savings. However, the implementation of the strategy is only recent and the full benefits have yet to be realised.</p>	
<b>Improvement opportunities</b>	
<p>KLOE 5.1 and 5.2 The authority currently achieves good value for money and manages and improves value for money.</p>	<p><i>R21 Embed value for money within the culture of the Authority, for example, through performance appraisal.</i></p> <p><i>R22 Implement effective monitoring of the capital programme.</i></p> <p><i>R23 Embed procurement strategy and related procedures.</i></p>

## Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Financial reporting</b>						
6	R1 Improve quality assurance arrangements to ensure the accounts are free from error and fully comply with the requirements of the SORP and other applicable accounting standards.		Darren Griffiths	Yes	A detailed action plan in response to these findings (previously referred to in the 'Final Accounts Memorandum') has been prepared and shared with the Audit Commission.	By June 2008
6	R2 Enable more effective member scrutiny and challenge of the financial statements.		Darren Griffiths	Yes	Whilst we achieved a score of 3 for 'external accountability', we expect that the Member training programme will facilitate greater member understanding and scrutiny of the financial statements. We will also raise the possibility of appointing a lead Member for Finance at the annual meeting of the Authority.	June 2008 and onwards.
7	R3 Give priority to clearly publishing the AAL (and other external audit reports) on the website.		Matt Maguire and Tim Bevington	Yes	We will develop a specific area on our internet site for 'External Reports' and ensure that each is published on a timely basis.	Internet site – March 2008 Publishing reports - ongoing
7	R4 Make the financial information in the annual report more analytical and link it with performance information.		Darren Griffiths/Sam Curphey	Yes	We will look to align key performance indicators with specific areas of expenditure in the 2007/08 Annual Report.	Aug-Sept 2008

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Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Financial management</b>						
8	R5 Develop the links between the medium term financial strategy and other key strategies.		Darren Griffiths	Yes	The Medium Term Financial Plan will be enhanced to reflect the longer term financial consequences of the Services' key strategies	By August 2008
8	R6 Strengthen financial management arrangements with a particular focus on improving capacity and skills.		Darren Griffiths and Dave Holland	Yes	The Service will be recruiting an additional qualified Accountant and a trainee Accountant in Q4 of 2007-08.	By end of March 2008
8	R7 Ensure budget monitoring is clearly risk focussed and related to key operation activity indicators.		Darren Griffiths	Yes	Budget Management Board is developing in its role and expertise. In Q4 of 2007-08, it will consider key aspects of performance and risk in relation to financial performance.	By end March 2008
8	R8 Strengthen links between financial and non-financial information and regularly report to members.		Darren Griffiths and Sam Curphey	Yes	Both the mid-year and 3/4 financial reports to Members include performance and context relevant to each Department. As our financial reporting abilities develop, we can be more specific in aligning key indicators to areas of spend.	Ongoing but progress by end August 2008
8	R9 Provide budget profiles in budget monitoring reports.		Dave Holland	Yes	We will begin by profiling staff budgets for 2008-09. The next step, which is a longer term one, is to profile each individual budget according to its projected spend pattern.	First stage by end March 2008.
8	R10 Complete the review of the capital project business case proforma and implement outcomes, including whole life costing in the appraisal process.		Darren Griffiths	Yes	The development of this proforma continues – bids for 2008-09 now require a delivery plan (with our financial health target in mind). Bids for 2009-10 will be made using whole-life costing.	September 2008
8	R11 Develop a set of performance measures in relation to assets that focus on evaluating the contribution which assets make towards the achievement of corporate objectives.		Dave Lewis	Yes	The Head of Asset Management is developing a suite of performance indicators in relation to key assets. These will require supporting systems to be in place to ensure that we can measure performance on an ongoing basis.	September 2008

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Financial standing</b>						
9	R12 Achieve financial health targets, through effective member monitoring.		Darren Griffiths	Yes	The Treasurer will review the suite of financial health targets with members to ensure that they remain appropriate. Progress against each target will be incorporated into the mid-year and ¾ review reports. In addition, assistance has been requested from the Audit Commission in identifying best practice elsewhere.	Review – Q4 2007-08
9	R13 Provide further information around the costs and benefits of maintaining reserves at certain levels, to enhance members understanding and decision making.		Darren Griffiths	Yes	The benefits of maintaining reserves at certain levels can be readily quantified by referring to the amount of interest generated. The costs are more difficult to identify, but we will seek to identify best practice from elsewhere with the intention of reporting both costs and benefits to Members as part of the 2008/09 budget setting process.	Jan 2008
<b>Internal control</b>						
10	R14 Fully embed business risk management in corporate business processes, following the creation of the new PRMG.		Paul Hancox, Darren Griffiths and Sam Curphey	Yes	In recognition of the importance of risk management to the Service, a new Resilience Forum has been created to ensure that business continuity and risk issues are considered side by side. This will be informed by key performance statistics and financial information. Similarly, risk registers have been created for financial issues and will be created for what is now called 'Performance and Projects Management Group' – PPMG.	By April 2008

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Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R15 Ensure that positive risks and opportunities are systematically identified and included in risk registers at all levels of the organisation.		Paul Hancox and Mike Anderson	Yes	Many Officers tend to lean towards seeing risks as primarily a negative term. We will seek to develop Officers understanding of the nature of positive risks to facilitate their incorporation into Departmental, Functional and Corporate risk registers and plans.	By April 2008
10	R16 Include specific risk management awareness training in the member learning and development programme.		Matt Maguire and Mike Anderson	Yes	Members have received some risk management training in the past, but we will ensure that the 2008 programme provides a refresher for existing Members and an introduction for new Members. In addition, we intend to retain our Member involvement in the corporate Risk Management Forum.	2008
10	R17 Undertake regular, robust reconciliations of bank accounts and feeder systems.		Dave Holland	Yes	More robust arrangements have been put in place to ensure the accurate reconciliation of all accounts and systems.	Jan 2008
10	R18 Review the terms of reference of the committees which discharge the functions of an audit committee to ensure all functions are covered and clearly allocated.		Kathryn Foreman and Darren Griffiths	Yes	We will review the Terms of Reference for each existing Committee to ensure that those functions typically discharged by an Audit Committee are incorporated into our meeting structure.	Feb 2008
11	R19 Plan and undertake proactive anti-fraud and corruption work, which is determined by a formal risk assessment and is adequately resourced.		Darren Griffiths	Yes	A request has been submitted to the Audit Commission regarding advice on the most appropriate activity to undertake given that we already participate in the National Fraud Initiative. We are keen to develop this area and will notify the Commission of our intended timescales when we receive advice about further activities to undertake.	Request submitted Jan 2008

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
11	R20 Specifically consider fraud and corruption in the overall business risk management process.		Darren Griffiths	Yes	The risk of fraud and/or corruption will be specifically recorded on the financial risk register and then appropriately rated and controlled. The Financial Risk Register is considered by Budget Management Board at each meeting.	Feb 2008
<b>Value for money</b>						
12	R21 Embed value for money within the culture of the Authority, for example, through performance appraisal.		Gill Thornton and Darren Griffiths	Yes	We will consider incorporating a VFM objective into individuals' appraisal process, although we do believe that most managers accept their VFM responsibilities.	March 2008
12	R22 Implement effective monitoring of the capital programme.		Darren Griffiths	Yes	The Service now undertakes at least two full reviews of the capital programme annually and from Feb 2008 onwards, BMB will have 'Progress against the Capital Programme' as a standing item.	Feb 2008
12	R23 Embed procurement strategy and related procedures.		Dave Lewis	Yes	See Procurement Strategy and Asset Management Departmental Plan.	Throughout 2008-09