

Annual Audit Letter

Cheshire Fire 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 your financial statements (page 3); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 4 to 7).**

Audit opinion and financial statements

1 I gave an unqualified opinion on the Authority's financial statements. The quality of the Authority's draft financial statements was of a high standard and has improved from the previous year.

Value for money

2 I issued an unqualified conclusion stating that the Authority had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources. The effectiveness of the Authority's arrangements has improved significantly since last year. The main area in which those arrangements can be further strengthened is in its use of natural resources.

Current and future challenges

3 The key challenge affecting all public sector organisations over the medium term is that of delivering services with significantly less resources. As a result of the comprehensive spending review in October 2010, central government funding to fire and rescue authorities will be reduced by 25 per cent over the four years ending in 2014/15.

4 The Authority is financially sound and has plans in place to make the savings needed. Nonetheless, the next few years will be very challenging. The focus of my work in support of the 2010/11 value for money conclusion will be on the Authority's financial resilience and its ability to prioritise resources within tighter budgets.

Financial statements and annual governance statement

The Authority's financial statements and annual governance statement are an important means by which the Authority accounts for its stewardship of public funds.

I gave an unqualified opinion on the Authority's 2009/10 financial statements on 17 September 2010, well within the statutory target date.

Overall conclusion from the audit

- 1 I gave an unqualified opinion on the Authority's financial statements.
- 2 The quality of the Authority's draft financial statements was of a high standard and has improved from the previous year. My team received good co-operation from your staff. There were three errors that affected the main statements. One was an understatement of depreciation of £86,000. The other two were classification errors in the Firefighters' Pension Fund. These errors did not affect the Authority's reported overspend. The draft statements included the required disclosure notes, although several of them were amended following the audit to either include further information or to correct errors.

Significant weaknesses in internal control

- 3 I consider that the Authority has an adequate internal control environment.
- 4 The Authority's payroll system is appropriately designed. However, the evidence from my work and the testing carried out by the Authority's internal auditors is that some of the controls in the system are not operating effectively. The Authority has an action plan to address the system weaknesses during 2010/11.

International Financial Reporting Standards (IFRS)

- 5 Looking forward, the Authority will prepare its 2010/11 financial statements under the new IFRS based Code of Practice on Local Authority accounting. The Authority is on track against its project plan to implement the significant changes required.

Value for money

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

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

Use of resources assessment

6 At the end of May 2010, the Commission wrote to all chief executives to inform them that, following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

7 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.

VFM conclusion

8 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year which criteria are included within the VFM conclusion at each type of audited body. The criteria cover three themes and my findings are summarised as follows.

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

9 As last year, I issued an unqualified conclusion stating that the Authority had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources. The effectiveness of the Authority's arrangements has improved significantly since last year.

10 My key findings for each of the three themes are as follows.

Financial reporting

11 The Authority plans its finances effectively to deliver strategic priorities and secure sound financial health. It has good integrated financial and service planning systems and engages local communities and other stakeholders in financial planning. It has a track record of performing within budget alongside good service performance.

12 The Authority has a sound understanding of costs and performance. It uses performance information to support decision-making and commissioning. For example, information on vulnerable people informs home safety assessments. The Authority is effective in identifying and achieving efficiency savings.

13 The Authority's financial information is relevant, timely and reliable. The reports to members are beginning to link activity levels to financial outturn estimates and members are actively engaged in preparing and setting the budget. A new finance system should enable budget-holders to have direct access to monitoring and forecasting information. The Authority's annual report is presented in a user-friendly way but does not include an analysis of the Authority's environmental footprint.

Governing the business

14 The Authority commissions and procures services in line with local needs to deliver sustainable outcomes and value for money. It reviews areas of expenditure, uses benchmarking and explores new ways of procuring or delivering services. For example, it has introduced a rapid response unit for road traffic accidents in response to local needs. It could improve its understanding of areas of expenditure not covered by contracts.

15 The Authority produces relevant and reliable data to support decision-making and manage performance. It makes excellent use of this data to target its resources effectively. For example, the Authority's rapid risk calculator enables more refined targeting of home safety assessments.

16 The Authority promotes and displays good governance, underpinned by a training programme for members. The Authority has a clear vision of what it wants to achieve for local communities and engages with stakeholders, local people and partners. The Authority plans to further strengthen its arrangements for partnership governance and ethical conduct.

17 The Authority manages risks and upholds a sound system of internal control. Risk management and business planning are well integrated and internal audit meets CIPFA standards. The Audit Commission's review of business continuity management at fire and rescue authorities concluded that the Authority's arrangements are satisfactory. The Authority needs to improve its counter-fraud and corruption arrangements by preparing a strategy and using it to inform pro-active counter-fraud and corruption work, including follow-up of queries raised by the National Fraud Initiative.

Managing resources

18 This year, I assessed Authority's arrangements for the management of its natural resources for the first time. The Authority publishes an annual environmental report and has included environmental responsibilities within staff objectives. Its arrangements are still developing and areas that need further work are:

- collecting accurate baseline data on the Authority's use of natural resources;
- producing and implementing an environmental strategy;
- developing performance information with which to measure the Authority's environmental impact; and
- providing training to staff.

Approach to local value for money work from 2010/11

19 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 of possible options for a new approach to local VFM audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

20 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

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

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

Closing remarks

22 I have discussed and agreed this letter with the Chief Fire Officer and the Director of Finance and Corporate Planning. I will present this letter at the Authority meeting on 15 December 2010 and will provide copies to all board members.

23 Full detailed findings, conclusions and recommendations in the areas covered by my audit were included in my Opinion Audit Plan and Annual Governance reports which I issued to the Policy Committee during the year.

24 The Authority has taken a positive and helpful approach to my audit. I wish to thank the Authority's staff for their support and cooperation during the audit.

Julian Farmer
District Auditor
November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	48,025	48,025	None
Value for money	19,600	19,600	None
Total audit fees	67,625	67,625	None
Non-audit work	-	-	None
Total	67,625	67,625	None

Appendix 2 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 Authority 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.

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