

# Annual Audit Letter

Bedfordshire and Luton Combined 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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# Key messages

**This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your accounts and the results of the work I have undertaken to assess the way in which you use your resources.**

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## Accounts

- 1 The Authority is required to prepare and approve its accounts by the 30 June 2009. I am responsible for issuing an audit opinion on these by 30 September 2009, which concludes whether the accounts present fairly the financial position at 31 March and the income and expenditure for the financial year. My opinion is either unqualified (where the accounts present the financial position fairly), or qualified (where I have not received enough assurance that the accounts do present fairly.)
- 2 The Authority met the deadline for approving its 2008/09 accounts. The accounts were complete and were supported by good working papers, which enabled me to issue my unqualified opinion on 29 September, in advance of the 30 September deadline.
- 3 I did find some errors in the accounts. Most of these were corrected, however, I reported three unadjusted errors to the Combined Fire Authority, who agreed with officers' recommendation not to amend the accounts for these errors, as the cumulative effect of these misstatements was deemed to be immaterial.
- 4 An enhanced reporting framework (International Financial Reporting Standards) is to apply to local authorities accounts in 2010/11. Officers have considered the requirements of the new framework and have been proactive in preparing a plan to enable the Authority meet these requirements.

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## Use of resources

- 5 We assess how the Authority makes use of the resources at its disposal to provide fire services. A national framework is applied to our assessment, with a score given between 1 (inadequate and below minimum standards) and 4 (performing strongly) in each of three key areas.
- 6 The Authority is performing well overall (Level 3). It attained the following scores in our assessment:
  - Level 3 for the way it manages its finances;
  - Level 2 for the way it manages and governs the business; and
  - Level 3 for the way it manages its people.

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### Value for money conclusion

- 7 Based on the results of my use of resources assessments, I issued a conclusion on whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.
- 8 I concluded that the Authority had put in place adequate arrangements and as a result issued an unqualified value for money conclusion for 2008/09.

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### Managing performance

- 9 The Audit Commission also assesses how well the Authority manages and improves services and contributes to wider community outcomes. The assessment considers how successful the Authority is in delivering corporate priorities. The priorities have been drawn from what matters most to the local people. The scores and summary findings are shown in the table below. The scoring mechanism is the same as for use of resources above.

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**Table 1**      **Managing performance assessment**

Score	Overall findings
2	<p>The Authority is delivering its priority services and end results adequately and it has the money, time and staff to improve.</p> <p>The overall number of fires significantly reduced in 2008/09. Primary fires reduced by 16 per cent, accidental house fires by 13 per cent, deliberate fires by 26 per cent and business premises fires by 17 per cent.</p> <p>New ways of working have led to many more home fire safety checks being carried out and more smoke detectors fitted.</p> <p>Response times are getting better and steady progress is being made in meeting the requirements of the Fire and Rescue Service National Framework 2008/11.</p> <p>Progress has been slow in completing assessments of the impact the Authority's actions have on how fairly people are treated. But equality and diversity is taken seriously. The Authority has been recognised in national equality and diversity awards.</p>

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### Overall organisational assessment

- 10 The use of resources and managing performance assessments are combined to give an overall organisational assessment judgement for the Authority. The Audit Commission has determined that the organisational assessment judgement is 'adequate'.

## Key messages

- 11 Overall Bedfordshire and Luton Combined Fire Authority performs adequately. The Authority is clear about what it needs to do to make people safer. It works well with local people and is improving safety in most areas. But, there is still work to do in important areas; for example to ensure all activity is targeted to areas of greatest risk.
- 12 There is a difference between the scores for managing its performance and use of resources. We decided that the score should be that, overall, the Authority performs adequately rather than well. This is because, although the Authority manages its resources well, we have given greater importance to the way the service manages performance to improve results for local people.
- 13 The Authority's managing performance and organisational assessments, and the overall Comprehensive Area Assessment for Bedfordshire, are being reported separately by the Audit Commission's Comprehensive Area Assessment Lead for Bedfordshire, Nigel Smith.

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## Financial standing

- 14 The last year has seen the country enter a significant economic recession on the back of a global economic crisis triggered by the collapse of a number of high profile international banks. There are further challenges for policy priorities where patterns of demand for services are changing and Government requirements and expectations evolve. At the same time there is the likelihood of reduced central government funding.
- 15 The impact of the recession will continue to present a challenge to the Authority in the coming financial year. The Authority has a robust medium term financial plan and a soundly-based reserves policy. I will continue to monitor the Authority's response and actions in this key area as part of my 2009/10 use of resources assessment.

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## Independence

- 16 As the External Auditor appointed to audit the Authority, I have to maintain my independence. I confirm that this audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

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## Recommendations

- 17 I have made a number of recommendations within my Annual Governance Report to further develop the arrangements in place at the Authority.
- 18 The Authority should monitor the implementation of these recommendations.

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# 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.**

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- 19 I issued an unqualified opinion on the Authority's accounts on 29 September 2009, thereby meeting the 30 September deadline set within the Accounts and Audit Regulations 2003. In my opinion the accounts present fairly the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.
- 20 Before giving my opinion, I reported to those charged with governance, in this case the Combined Fire Authority, on the issues arising from the 2008/09 audit. I issued my report on 28 September 2009.

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## Accounting issues

- 21 The draft accounts were approved on 30 June 2009, the deadline specified in the Accounts and Audit Regulations 2003.
- 22 Working papers supporting the accounts were to a high standard, and responses to queries and requests for additional information were helpfully dealt with by finance staff.
- 23 The audit did not identify any material errors (ie errors that, if not corrected, would distort the overall financial position of the Authority). Amendments were made by management to correct most non-trivial errors. These amendments did not result in any changes to the reported deficit or net assets.
- 24 I presented my Annual Governance Report to the Audit Committee on 28 September 2009. This report included the full details of the issues arising from our audit of the accounts including the adjusted and unadjusted errors that my audit had found.
- 25 I reported three unadjusted errors to the Authority, who agreed with officers' recommendation not to amend the accounts for these errors, as the cumulative effect of these misstatements was deemed to be immaterial. This consideration was formally recorded in a Letter of Representation from the Authority, which allowed me to conclude my audit procedures and issue my audit opinion as set out above.

## Financial statements and annual governance statement

- 26 The Authority's outsourced internal audit service, Tribal, comply with the requirements of the CIPFA Code. The financial systems underpinning the accounts continue to operate with generally sound controls in place. Internal audit have reviewed these systems and made a number of recommendations. I support the implementation of these recommendations as a way of further strengthening the Authority's control environment.

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### International Financial Reporting Standards

- 27 International Financial Reporting Standards (IFRS) will be applied to local government accounts for the first time in 2010/11. This will also require comparative figures for the 2009/10 financial year to be restated in the new IFRS format.
- 28 Applying IFRS will have significant implications for the way in which fire authorities prepare their annual financial statements, in particular in terms of accounting for fixed assets and leases. The Chartered Institute of Public Finance Accountants (CIPFA) will be issuing their IFRS Code of Practice in December 2009.
- 29 The Authority has responded proactively to this challenge; setting up an IFRS working group to plan and manage the transition to IFRS, which involves staff across finance, procurement, human resources and property. The Authority plan to procure external services in order to support this transition, specifically to help in technical areas such as leases.

# Value for money and use of resources

I considered how well the Authority is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Authority put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

## Use of resources judgements

- 30** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 31** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 32** Overall I assessed the Authority as performing well (level 3) in its use of resources. The individual theme scores are shown in Table 3 below. The Authority compares well against the harder test that the revised Use of Resources approach sets. It has in place necessary processes and clearly demonstrates outcomes, with performance and financial aspects being reported in an integrated way.

**Table 2** Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	2
Managing resources	3
Overall score	3

- 33** The findings and conclusions for the three themes, and the underlying KLOE, are set out in my Annual Governance Report. The key theme findings are summarised below.

## Value for money and use of resources

### Managing finances

- 34 The Authority's Medium Term Financial Strategy (MTFS) considers both local and national improvement policies, and is linked with key strategic objectives. The MTFS is supported by a comprehensive revenue budget, capital programme and strong budget monitoring processes. This contributes to effective financial planning.
- 35 Achieving efficiencies through procurement, collaboration and new ways of working is key to the Authority's approach to delivering services. There is a strong focus on efficiencies and a commitment to achieving objectives by shifting resources from low to high priority areas. A variety of consultation methods are currently being employed, with particular focus the community risk management plan.
- 36 Costs per head of population are around average when compared to other fire and rescue services. Whilst there are examples of efficiencies being made, the Authority could improve in this area by more systematically reviewing costs and performance, as well as using benchmarking on a more consistent basis.
- 37 Budget monitoring and forecasting information are reliable, relevant, understandable and accruals based. The Performance Achievement and Scrutiny Group is responsible for performance management and budget monitoring, and there is evidence of outcomes achieved as a result of using financial and performance information together to understand and monitor the Authority's performance during the year.
- 38 There are sound processes for producing the annual accounts. The Authority has received an unqualified opinion on its statutory accounts for the last few years. My audits have only identified immaterial errors and all statutory deadlines have been met.
- 39 Published reports are very user friendly and informative, and deal with important issues such as environmental and social information.

### Governing the business

- 40 The Authority takes a pragmatic approach to procurement, working with local suppliers, where possible, to reduce its carbon footprint. This commitment to the local community extends to involving local people in service design to make services more accessible. Improved ICT systems and processes have been implemented to increase productivity.
- 41 The Authority uses information well to support decision making. This is achieved through monitoring performance against plans and targets, using budgets and PBViews, and taking action when necessary. The Authority adheres to its data security policies to comply with legislation and to protect sensitive data. Data management has been given greater prominence recently and should result in more integrated databases.
- 42 Audit testing of five performance indicators found that the systems are adequately designed to ensure the data is accurate, valid, reliable, timely, relevant and complete. Testing of the underlying data confirmed that the indicators meet the Audit Commission's data quality criteria.

- 43 The Authority identifies and manages corporate business risks through strategic and corporate risk registers. Risks are considered during the strategy planning process and are then scrutinised by the Integrated Risk Management Scrutiny Group.
- 44 There is a sound governance framework, supported by strong ethical values and a focus on purpose and vision. The Authority will be able to demonstrate stronger governance arrangements if partnerships are reviewed regularly to assess value for money and the effectiveness of outcomes.

### Managing resources

- 45 The Authority has embedded human resource policies which enable staff to carry out their jobs effectively. These policies are included in the Human Resources and Development Strategy which encompasses all employees and is clearly linked with overall aims and objectives. There has been significant investment in staff training, both for core operational staff and managerial development.
- 46 Potential skills gaps in the workforce have been identified and addressed, and robust recruitment procedures are in place, ensuring the workforce remains fit for purpose.
- 47 The Authority is committed to diversity in its workforce. This has been demonstrated by the engagement the Authority has had with disability, ethnic minority and transgender issues.

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### VFM conclusion

- 48 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 49 Based on the Use of Resources assessment, which was linked to the criteria set out above, I was able to issue an unqualified conclusion, stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

# Financial standing

- 50** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing and Government requirements and expectations evolve.
- 51** I have reflected on the wider environment, specific issues and risks and the Authority's response. The Authority understands the implications of the economic downturn and the challenges faced from the wider fire agenda and is proactively responding to these challenges. Its treasury management arrangements are adequate.
- 52** The Authority has a history of sound financial standing, and is projecting that its spend will be within budget for 2009/10. A £670k budget surplus was reported for the 2008/09 financial year. Maintaining this good position is however becoming increasingly challenging.
- 53** The Authority has a robust medium-term financial plan and understands long term pressures on the service, such as the new responsibilities under new statutory instruments. The impact of these pressures has been built into the medium term plan.
- 54** The Authority has a soundly based policy on the level and nature of reserves and balances which is based on a thorough assessment of risks. At 31 March 2009 the Authority had £3.8 million in its general reserves and £800k in earmarked reserves. It has a planned use of reserves of £444k in this current financial year, and £250k and £100k for the next two years respectively.
- 55** Though the economic downturn and the wider fire agenda are presenting specific issues and risks to the Authority, I am satisfied that it is taking appropriate steps to respond to these. However, this is an area I will continue to consider closely when assessing how the Authority makes effective use of resources during my 2009/10 audit.

# Audit fees

56 Our fees for the 2008/09 audit are set out in Table 3. I was able to deliver the audit within the planned fee

**Table 3**      **Audit fees**

	<b>Actual</b>	<b>Planned</b>	<b>Variance</b>
Financial statements and annual governance statement	£45,106	£45,106	£0
Use of resources	£17,883	£17,883	£0
Data Quality	£6,798	£6,798	£0
Whole of government accounts	£3,010	£3,010	£0
<b>Total audit fees</b>	<b>£72,797</b>	<b>£72,797</b>	<b>£0</b>

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# Closing remarks

- 57 I have agreed this letter with the Chief Fire Officer and the Head of Finance and Corporate Services. I will present this letter at the Combined Fire Authority meeting on 11 December 2009 and will provide copies to all Members.
- 58 Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Authority during the year.

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**Table 4      Audit outputs**

Report	Date issued
Audit and inspection plan	June 2008
Annual governance report	September 2009
Opinion on financial statements	September 2009
Value for money conclusion	September 2009
Annual audit letter	December 2009

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- 59 The Authority has taken a positive and constructive approach to our audit. I wish to thank the Authority and Brigade staff for their support and co-operation during the audit.

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## Availability of this letter

- 60 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

Debbie Hanson  
District Auditor  
December 2009

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# The Audit Commission

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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