

Annual Governance Report

Royal Berkshire Fire Authority

Audit 2006/07

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

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.

Copies of this report

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Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts as well as confirmation of the fee, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance for the Authority at the time they are considering the financial statements.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) - ISA (UK&I) - 260 '*Communication of Audit Matters to Those Charged with Governance*', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
 - where we suspect or detect fraud;
 - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
 - non-compliance with legislative or regulatory requirements and related authorities.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 4 This report has been prepared for presentation to the Authority on 17 September 2007. Members are invited to:
 - consider the matters raised in the report before the financial statements are approved;
 - approve the representation letter on behalf of the Authority and those charged with governance before we issue our opinion; and
 - consider amending the financial statements for unadjusted misstatements, significant qualitative aspects of financial reporting and any recommendations for improvement in the action plan.
- 5 Our work during the year was performed in line with the plan that we presented to you in March 2006. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 3.

Key messages

- 6 Our work on the financial statements is substantially complete. We propose issuing an unqualified audit opinion on 18 September 2007 (a draft report is attached at Appendix 4).
- 7 In our view, the wording of the Statement on Internal Control (SIC) is largely consistent with the findings from our audit but the Authority needs to make further progress in preparing this in accordance with proper practice specified by CIPFA.
- 8 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is also complete. Our conclusion from the work on the Authority's arrangements was that the Authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources in the 2006/07 year except in respect of meeting the criteria for maintaining a sound system of internal control. This is reflected in our proposed conclusion on the use of resources (a draft report is attached at Appendix 4). Arrangements are being strengthened for the 2007/08 year.
- 9 The Authority has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Authority's assistance and co-operation.

Accounts and Statement on Internal Control

- 10 Our work on the financial statements is substantially complete.
- 11 However, auditors are required to obtain written confirmation of certain matters from management and those charged with governance before an audit report is issued. We also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 12 The draft of the letter of representation has been attached as Appendix 5.

Unadjusted misstatements

- 13 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial.
- 14 There are no unadjusted misstatements that we need to bring to the attention of members.

Adjustments to the financial statements

- 15 We are required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities.
- 16 These are a number of minor matters recorded in full at Appendix 7.

Accounting practices

- 17 We are also required to report to you our view on the qualitative aspects of the Authority's accounting practices and financial reporting.
- 18 The accounts were prepared to a good standard with a number of minor observations made as follows.
- The Statements of Accounts were reviewed using the 2006 CIPFA statement of recommended practice (SORP) checklist. A number of minor improvements were identified which will be considered for the 2007/08 accounts;
 - The Statement of Internal Control should be expanded next year to provide a fuller assessment of the Authority's internal control environment, the significant internal control issues faced and the actions being taken to address these matters. To support this, arrangements will need to have been reviewed, which can be better achieved next year, particularly as an Audit Committee will be providing member input to ensuring the effectiveness of arrangements.

Systems of internal control

- 19 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified. We raised a number of matters with officers last year, and some of these issues remain outstanding.
- Best practice is not being followed with regard to systems security, in particular access to key systems needs to be better controlled.
 - The Treasurer is still sole signatory for manual cheques.
 - Watch managers are authorising their own overtime/enhancement forms.
- 20 Over the last year, it is not clear that our audit reports or those of Internal Audit have been given appropriate significance at the Authority and the forming of an Audit Committee will help address this issue.
- 21 Please note that we do not provide a comprehensive commentary on weaknesses which may exist in internal control, but we have included these matters as they have come to our attention as a result of the audit procedures we have performed.

Use of Resources

Work performed

- 22 The Code requires us to reach a conclusion on whether we are satisfied that the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Authority's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission.
- 23 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 8.
- 24 Our overall conclusion from the work on the Authority's arrangements was that the Authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources in the 2006/07 year except in respect of meeting the criteria for maintaining a sound system of internal control.
- 25 Whilst progress is now being made in strengthening internal controls, by putting in place firmer processes for producing the Statement of Internal Control (SIC), agreeing appropriate internal audit coverage and ensuring that the requirements of an Audit Committee are met, these arrangements were fully not in place during the 2006/07 year.
- 26 We propose issuing our conclusion on the use of resources after the authority's 17 September 2007 meeting (a draft report is attached at Appendix 4).

Use of Resources assessment

- 27 We will soon be undertaking our CPA use of resources assessment which will update on the 2006 findings reported earlier this year. When this work is completed, we will discuss this with the relevant officers.

Audit fee update

- 28 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan.

Table 1

Fee estimate	Plan 2006/07 £	Actual 2006/07 £
Accounts and WGA return	40,460	40,460
VFM conclusion and BVPP opinion	14,838	14,838
Total	55,298	55,298
Relationship Management and Direction of Travel assessment	22,419	22,419
Use of Resources judgement (HFRA to be reimbursed)	10,194	10,194
Less ODPM grant (element paid direct to Audit Commission)	(22,419)	(22,419)
Gross fee payable	65,492	65,492
Reclaimed via 'new burdens'	(10,194)	(10,194)
Net fee payable	55,298	55,298

- 29 The outturn fees are unchanged from the estimated fees.

Appendix 1 – Action plan

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Financial statements					
R1 The 2007/08 financial statements to reflect changes agreed this year and minor deficiencies relating to the format of statements and completeness of accounting policies.	2	Senior Accountant	Yes	Agreed.	April 2008
Internal controls					
R2 The 2007/08 Statement of Internal Control should be supported by an effectiveness review and be approved by the Audit Committee.	3	Treasurer	Yes	Agreed.	April 2008

Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R3 In order to ensure that the material IT systems are secure, best practice regarding passwords should be followed.	2	Director of Support Services	Yes	Agreed in 2006. Progress will be made with the next release of Firewatch.	2007
R4 A written policy for controlling access to operating system and database management system user accounts and system utilities should be produced.	2	Director of Support Services	Yes	Agreed.	2007
R5 The mandate with the bank should be amended to require a second signatory for high value (over £10,000) manual cheque payments.	2	Treasurer	Yes	Agreed in 2006. Not yet progressed.	2007
R6 The Authority should consider a method of countersigning Watch Managers' overtime and enhancement claims.	2	Treasurer	Yes	Being considered alongside proposed enhancements to Firewatch. Payroll Section checks claims and queries unusual/high amounts.	2007

Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 We are required to communicate the following matters to those charged with governance:
 - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.

Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Comment
Audit Plan	April 2006	April 2006	
Audit Memorandum including report on Financial Statements to those Charged with Governance	September 2007	September 2007	
Opinion on Financial Statements	September 2007	September 2007	
VFM Conclusion	September 2007	September 2007	
Final Accounts Memorandum	September 2007	September 2007	
BVPP Opinion	September 2007	September 2007	
Use of Resources Judgement	December 2007		To follow.
Annual Audit and Inspection Letter (including 2007/08 direction of travel text)	March 2008		To follow.

Appendix 4 – Proposed auditor’s report

Independent auditor’s report to the members of Royal Berkshire Fire and Rescue Authority

Opinion on the financial statements

- 1 I have audited the financial statements and the Firefighters’ pension fund accounting statements of the Royal Berkshire Fire and Rescue Authority for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Explanatory Foreword, Income and Expenditure Account, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement and the related notes. The Firefighters’ pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial statements and Firefighters’ pension fund accounting statements have been prepared under the accounting policies set out within them.
- 2 This report is made solely to the Royal Berkshire Fire and Rescue Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Treasurer and Auditor

- 3 The Treasurer’s responsibilities for preparing the financial statements, including the Firefighters’ pension fund accounting statements, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.
- 4 My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

- 5 I report to you my opinion as to whether the financial statements and the Firefighters' pension fund accounting statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006:
- the financial position of the Authority and its income and expenditure for the year; and
 - the financial transactions of its Firefighters' pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.
- 6 I review whether the statement on internal control reflects compliance with CIPFA's guidance *'The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003'* issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures
- 7 I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

- 8 I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.
- 9 I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

10 In my opinion:

- the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority and its income and expenditure for the year then ended; and
- the Firefighters' pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial transactions of the Firefighters' pension fund during the year ended 31 March 2007, and the amount and disposition of the fund's assets and liabilities as at 31 March 2007, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Mick West
District Auditor

Audit Commission
Unit 5, ISIS Business Centre
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Cowley
Oxford OX4 2RD

September 2007

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s responsibilities

- 11 The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.
- 12 Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority’s assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor’s responsibilities

- 13 I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for Fire and Rescue Authorities. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.
- 14 I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority’s best value performance plan and issue a report:
 - certifying that I have done so;
 - stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
 - where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

- 15 I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for Fire and Rescue Authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Royal Berkshire Fire and Rescue Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007 except that it did not have in place arrangements to maintain a sound system of internal control.

Best value performance plan

- 16 I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 last year. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

- 17 I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Mick West
District Auditor

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September 2007

Appendix 5 – Management representation letter

Royal Berkshire Fire and Rescue Authority – 2006/07 Accounts

- 1 I confirm to the best of my knowledge and belief that, having made appropriate enquiries of members and officers of the Royal Berkshire Fire Authority with relevant knowledge and experience, I can make the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2007.
- 2 I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.
- 3 The Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Supporting records

- 4 All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Authority and Committee meetings, have been made available to you.

Related party transactions

- 5 I confirm the completeness of the information provided regarding the identification of related parties.
- 6 The identity of, and balances and transactions with, related parties have been properly recorded and, where appropriate, adequately disclosed in the financial statements.

Contingent liabilities

- 7 There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:
 - there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
 - there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
 - no financial guarantees have been given to third parties.

Law, regulations and codes of practice

- 8 There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

Irregularities

- 9 I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error.
- 10 There have been no:
- irregularities involving management or employees who have significant roles in the system of internal accounting control;
 - irregularities involving other employees that could have a material effect on the financial statements; and
 - communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Post balance sheet events

- 11 Since the date of approval of the financial statements by the Authority, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of Royal Berkshire Fire Authority

Name Andrew Vallance
Position Treasurer to the Royal Berkshire Fire Authority
Date

Name Dr P Bryant
Position Chairman of the Fire Authority
Date

Appendix 6 – Summary of unadjusted misstatements

None.

Appendix 7 – Summary of adjusted misstatements

- 1 Two adjustments to the financial statements were agreed during the course of the audit. These changes were made after the statements were presented for approval by members.
 - An adjustment has been made from ‘operational response’ to ‘prevention and education’ in the Income and Expenditure Account. This is required by BVACOP to reflect the costs of operational firefighters being involved in preventative work.
 - A note has been included to disclose pre-payments with a total value of £766,000. These have been included under the heading of ‘debtors’ in the Balance Sheet.
- 2 Minor additions, cross referencing and disclosure errors were also found in the first draft of the accounts presented for audit. These were amended before the statements were presented for member approval.

Appendix 8 – Value for money conclusion

- 1 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources.
- 2 The Code criteria are linked to the use of resources assessment (UoR) key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Authority has adequate arrangements in place for the purposes of the Code criteria. The Code criteria and the linked KLoEs are show in the table below.

Code Criteria	Description	Associated UoR KLoE	UoR Score	VFM Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	N/A	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/A	N/A	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	N/A	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	LG DQ KLoEs	N/A	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control.	4.2	1	Not adequate
6	The body has put in place arrangements to manage its significant business risks.	4.1	2	Adequate

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Code Criteria	Description	Associated UoR KLoE	UoR Score	VFM Conclusion
7	The body has put in place arrangements to manage and improve value for money.	5.2	2	Adequate
8	The body has put in place a medium term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1	2	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	3	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	3	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	2	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	2	Adequate