

Audit Detailed Report

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# **Final accounts audit report**

**East Sussex Fire Authority**

**Audit 2005/06**

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# Summary Report

## Introduction

- 1 The Authority is responsible for the preparation of financial statements as at 31 March each year. The external auditor is responsible for undertaking an audit of those statements and reporting whether in his/her opinion they present fairly the financial position.
- 2 The prime objective of our opinion work is to provide the following:
  - An independent assessment of the accounts, to ensure that they present fairly the financial position and income and expenditure of the Authority;
  - An assessment of whether the statement of accounts has been prepared in accordance with the accounting policies relevant to local authorities; and
  - An assessment as to whether the statement of responsibilities in respect of internal control reflects compliance with CIPFA's guidance and is consistent with other information we are aware of from our cumulative audit knowledge.
- 3 At the same time we are also required to give an opinion on whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is often called the value for money (vfm) conclusion.
- 4 The Government Resources and Accounts Act 2000 provides the framework for the Treasury to co-ordinate the preparation of Whole of Government Accounts (WGA). These are commercial-style accounts covering the complete public sector, including about 1300 bodies in total. In producing WGA, there is a need to adopt best practice accounting methods as represented by the Generally Accepted Accounting Practice in the United Kingdom (UK GAAP). The Authority's consolidation pack for 2005/06 was subject to our audit.

## Background

- 5 We completed our audit of the Authority's financial statements in September 2006. As part of our work on the Authority's statements we gave the required vfm conclusion and certified the WGA pack.
- 6 The statements were approved by the Scrutiny and Audit Panel on 22 June 2006, before the deadline of 30 June 2006 required under the Accounts and Audit Regulations 2003 (AAR).

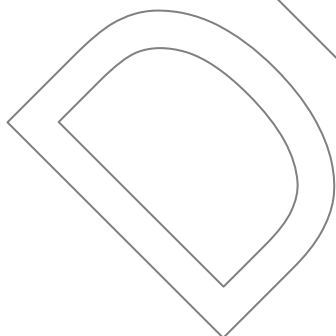
- 7 International Standard of Auditing (UK and Ireland) (ISA) 260 requires auditors to report to those charged with corporate governance (as distinct from management) certain matters before they give an opinion on the financial statements. These were set out in the Annual Governance Report for 2005-06 which was presented to the Scrutiny and Audit Panel on 14 September 2006.
- 8 This report summarises issues that arose in our pre and post statement testing, details amendments that were required to be made to the financial statements prior to their certification and, where appropriate, makes recommendations at Appendix 1 for improvements for the future.
- 9 The Annual Governance Report for 2005-06 drew the attention of those charged with governance to a number of issues related to the financial statements.

## Audit approach

- 10 Our audit approach is designed to enable us to give our independent opinion on the accounts of the Authority and to be compliant with the newly introduced International Standards on Auditing (ISAs). This is achieved through the following:
  - Establishing joint working arrangements with officers of the Authority. This includes liaising with finance staff over closedown procedures and agreeing working paper requirements;
  - An initial risk assessment focused on the Authority's control environment;
  - An understanding of the operation of the Authority's material systems; those which contribute material values to the financial statements;
  - A detailed understanding of the key controls that operate within those systems including compliance testing to ascertain whether we could rely on them to obviate the need for substantive testing of transactions;
  - Applying analytical review techniques wherever practicable to focus specific testing;
  - A detailed risk assessment arising out of our understanding of material systems and of risks faced by the Authority including specific testing to address high and medium risk areas;
  - An overall review of the financial statements and detailed testing on individual final accounts balances; and
  - Substantive testing of random samples of transactions in areas where we were unable to rely on system controls.

## Main conclusions

- 11 An unqualified opinion dated 29th September 2006 was given on the financial statements of the Authority. We also concluded that the Authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The WGA pack was certified by the required deadline established by the Treasury.
- 12 The statements presented for audit were free from material misstatement and had been prepared in accordance with proper professional practice. During our work the Authority agreed to make some minor amendments to them.
- 13 Appendix 1 to this report is an action plan which details our recommendations arising from the audit and includes target completion dates agreed by Authority officers.
- 14 Our pre-statement testing of material systems was helped by the continued co-operation of Internal Audit which allowed us access to its system review files. We noted some control weaknesses in the accounts payable system which were highlighted in our Annual Governance Report.
- 15 Apart from those minor weaknesses, we were able to rely on most controls and our post-statement substantive testing was confined mainly to debtors, creditors, fixed asset movements and cut-off procedures used at year-end.
- 16 We would like to thank all officers who contributed through all stages of our audit. Although we found a number of minor errors in the financial statements, there has been a steady improvement in their compliance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom (SORP) and in the quality of working papers.



## Detailed Report

### Working papers

- 17 The working papers supplied to support the financial statements were generally of a good standard, complete and provided entirely electronically. In advance of the audit we had discussed our needs with officers to ensure they were more closely aligned with the reporting capabilities of the main financial accounting and reporting system, SAP, and this investment of time was valuable.
- 18 There was a delay of about a week between the financial statements being prepared and the availability of all working papers. Providing working papers simultaneously with draft accounts is a requirement of the Financial Reporting theme of the Use of Resources assessment.
- 19 Some fine tuning can be done to the working paper requirements for next year and these will be discussed with officers. In particular we will identify in advance transaction lists wherever we can so that information will be available to assist us in determining samples for testing.

### Systems

- 20 Our pre-statement assessment of material financial and information systems covered the general ledger, accounts payable, accounts receivable, payroll, treasury management and AXISE (the pension payment and contributions system).
- 21 The ISAs require that we document systems, identify and test for compliance the key controls operating within the systems and conclude as to whether we can rely on those controls to reduce the risk of material mis-statement to an acceptably low level.
- 22 We were able to use work done by Internal Audit to assist us in reaching our conclusions. In most cases we concluded that controls were operating effectively but would draw your attention to some weaknesses below.

### Accounts payable

- 23 Our pre-statement testing of the accounts payable system, an integrated module of SAP, revealed several weaknesses:
  - We found that four out of the five officers able to make payments for goods and services received could also initiate the orders for those goods and services. There were off SAP controls and internal protocols in place to prevent such an occurrence, but officers accepted our findings and made changes to SAP permissions and some duties attached to posts immediately.

- Financial regulations allow for some transactions, mainly utilities, to be paid for without raising a purchase order. Our testing showed that this was happening for a much wider range of transactions. The Authority is satisfied with the controls in place for these transactions and the Financial Regulations are due to be amended to reflect the wider use of them.
  - Our testing of two transactions revealed that the invoices had been paid without the normally required form of confirmation that goods had been received or formal authorisation for payment. For one transaction, an e-mail had been attached requesting that the invoice be paid, but the sender was not an authorised signatory for the relevant budget. It should be noted however, that the amounts involved were insignificant.
- 24 We are aware that the Authority made some immediate changes in this area and we will review these in our pre-statement work for the 2006-07 opinion audit. We recognise that 2005-06 was the first full year of operation of the SAP system and there were transition issues relating to internal controls which have since been resolved.

## Fixed assets

- 25 Our testing of fixed assets revealed two assets, a vehicle and a property, that had been disposed of during the year but not removed from the fixed asset register. This resulted in an overstatement of the fixed assets and of the depreciation charge for the year. Although the amounts involved were not material, it should be ensured that fixed asset records are accurate and updated on a timely basis.
- 26 Our testing also revealed that Communities and Local Government (CLG) had donated a specialised fire fighting vehicle to many Authorities during the year. No guidance on the proper accounting treatment for the vehicle was given by CLG. Our review of the documents supporting this vehicle suggested that the 'risks and rewards' of ownership had been substantially transferred to the Authority despite legal ownership remaining with the CLG. The proper accounting treatment is still unclear. Audit Commission Technical Services have suggested that the vehicle should appear on the fixed asset register as a donated asset with a corresponding donated asset reserve. The Authority has made enquiries with other Fire and Rescue Services and found that they are not in favour of this approach and therefore the vehicle remains off balance sheet until a consistent approach is agreed.

## Creditors

- 27 As in previous years, the Authority included in the year end creditors balance an amount for the ongoing replacement and maintenance of fire hydrants. We concluded that as neither the timing nor the amounts to be paid are certain at the year end, this does not constitute a creditor. We accept that whilst it is prudent to recognise the future cost of such works this should be done through a provision rather than creditors. The accrual was £85k in the 2005-06 financial statements and, while not material, its size warranted an entry in the Annual Governance Report.

## Whole of Government accounts

- 28 At the commencement of our audit of the 2005-06 financial statements, it was clear that the Authority was unaware of the need for it to complete a WGA pack for the Treasury. Once agreed that such a pack was required, it was submitted to us for audit before the deadline.
- 29 Our testing revealed a number of minor errors, all of which were corrected, and the pack was certified and submitted in accordance with the Treasury timescales.

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## Appendix 1– Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	<b>Working papers</b>					
	Working papers should be submitted for audit at the same time as the financial statements.	3	R.Charman/ D.Broadbridge	yes	The working papers will only be handed over at the same time as the financial statements.	June 2007
7	<b>Accounts payable</b>					
	Internal controls should be operated effectively and financial regulations should be followed in the operation of the accounts payable system.	3	R.Charman	yes		ongoing
8	<b>Fixed assets</b>					
	The fixed asset register should be accurate and up to date.	2	R.Charman/ D.Broadbridge	yes		year end
8	<b>Donated vehicle</b>					
	A consistent accounting treatment for this vehicle is needed in readiness for the preparation of the 2006-07 financial statements. We will work with the Authority to clarify the treatment.	2	R.Charman/ D.Broadbridge	yes	The Fire Authority is clarifying the accounting treatment for this vehicle.	year end
9	<b>Creditors</b>					
	A provision should be established, rather than the creation of a creditor at the year end, to smooth the annual cost of fire hydrant repairs and replacements.	2	R.Charman/ D.Broadbridge	yes	Should a provision be required, a provision rather than the creation of a creditor will be made.	