



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

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September 2010

Author: Wales Audit Office and KPMG LLP

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Audit of Accounting Statements – Report to Those Charged with Governance

North Wales Fire Authority

This document is a draft version pending further discussions with the audited and inspected body. Information may not yet have been fully verified and should not be widely distributed.

It is my intention as, Appointed Auditor, to issue an unqualified Auditor's Report on the accounting statements and related notes.

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Status of this report

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Summary

1. North Wales Fire Authority (the Authority) is responsible for the preparation of accounting statements and related notes that give a true and fair view of its financial position as at 31 March 2010 and its income and expenditure for the year then ended. I am required to give my opinion as to whether the accounting statements and related notes do give a true and fair view.
2. The Authority submitted a Statement of Accounts to me in July 2010 and I have now substantially completed the audit of the accounting statements and related notes. I do not seek to obtain absolute assurance that the accounting statements and related notes give a true and fair view of the financial position of the Authority, or assurance that they are accurate in every regard, but instead adopt a concept of materiality. In planning and conducting the audit of the accounts, I seek to identify material errors in the accounting statements and related notes ie, those which might be misleading to a reader.
3. The levels at which I judge such errors to be material for the Authority are £316,000 for income and expenditure items and balance sheet items relating to working capital and other balance sheet items. Whether an item is judged to be material is not only affected by quantitative issues but can also by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
4. Now that the audit is substantially complete, this report details the key matters arising from it. These matters must be communicated to those charged with governance, in accordance with International Standard on Auditing (ISA) 260, prior to giving an opinion on the accounting statements and related notes. More detailed matters arising and recommendations will be agreed with officers.
5. ISA 260 requires auditors to report to those charged with governance the following matters before they give an opinion on the accounting statements and related notes:
 - relationships that may bear on the auditor's independence;
 - audit planning information; and
 - findings from the audit, including the auditor's views on the qualitative aspects of the entity's accounting and reporting.
6. The first two matters were reported to you in the Financial Audit Strategy. This report has been prepared to discharge my responsibilities with regard to the third point. My findings are:
 - I have no concerns about the qualitative aspects of your accounting practices and financial reporting;
 - there are no uncorrected misstatements;
 - I do not expect to modify the standard auditor's report;
 - I did not identify any material weaknesses in your internal controls;

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- there are no other matters that I am required by other ISAs to report to you;
and
 - there are no other significant audit matters of governance interest to report.
7. It is my intention to issue an unmodified auditor's report on the accounting statements and related notes once the Authority has provided me with the Letter of Representation as set out in Appendix 1.

I have no concerns about the qualitative aspects of your accounting practices and financial reporting

8. In the course of the audit I consider qualitative aspects of the financial reporting process. I evaluate the information provided by the accounting statements and related notes to determine if it is relevant, reliable, comparable, material and easy to understand.
9. There are no matters arising from this review that I wish to draw to the attention of the Committee.

There are no uncorrected misstatements

10. I report to you all uncorrected misstatements other than those of a clearly trivial nature (trivial is defined as entirely inconsequential, whether taken individually or in aggregate, either quantitatively and/or qualitatively). On the basis of our standard methodology, the financial limit for what I consider trivial has been calculated at £16,000.
11. There are no uncorrected misstatements above this level. Corrections to the draft financial statements are shown in Appendix 2.

I do not expect to modify the standard auditor's report

12. I report any proposed modifications to the standard auditor's report to ensure that you are aware of the reasons for the modifications and have the opportunity to provide any further information and explanations in respect of the matter(s) giving rise to the modification. The report comments on whether:
 - the accounting statements and related notes give a true and fair view of the financial position as at 31 March 2010 and its income and expenditure for the year then ended; and
 - the Statement on Internal Control is compliant with applicable guidance and consistent with my knowledge and understanding of the Authority's arrangements.
13. On the basis of our audit work, no matters have been identified that would require any modification to the audit opinion.

I did not identify any material weaknesses in your internal controls

14. A material weakness in internal control is defined by ISA 260 as 'a deficiency in design or operation which could adversely affect the entity's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements'.

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15. I do not, however, normally report information to you concerning a material weakness you know about and have taken appropriate action to correct, unless the weakness is symptomatic of broader weaknesses in the overall control environment and there is a risk that other material weaknesses may occur.
 16. You should be aware that I do not provide a comprehensive statement of all weaknesses that may exist in the internal controls, or of all improvements that may be made, but have addressed only those matters that have come to my attention as a result of the audit procedures performed.
 17. I did not identify any material weaknesses in your internal controls. Non material weaknesses identified and potential areas for improvement along with an update on the prior year's non material weaknesses is shown in Appendix 3.

There are no other matters which I am required by other ISAs to report to you

18. Other auditing standards require us to communicate with you in other specific circumstances including where:
 - I suspect or detect fraud, even if the potential effect is not material to my audit of the accounting statements and related notes, unless I am prohibited from doing so under money laundering regulations; and
 - the Authority's accounting statements and related notes and other information in the Statement of Accounts are inconsistent.
19. There are no other matters which I am required by other ISAs to report to you.

There are no other significant audit matters of governance interest to report

20. I am also required to report to you any other significant audit matters of governance interest to allow you to take appropriate action.
21. There are no other significant audit matters of governance interest to report.

There are no issues relating to the Whole of Government Accounts to report

22. The Whole of Government Accounts (WoGA) exercise is a HM Treasury (HMT) project. It aims to produce a set of consolidated financial statements for the whole of the UK public sector. HMT have confirmed that the 2009/2010 UK accounts will be published in Spring 2011.
23. To inform the WoGA exercise, North Wales Fire Authority is required to submit an audited consolidation return known as an 'L-pack' to the Assembly Government by 30 September 2010. The 'L-pack details':
 - the transactions and balances reported in the Authority's statutory accounts; and
 - Inter-WoGA balances, requiring elimination on consolidation.

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24. It is the Appointed Auditor's intention to issue an unqualified certificate on the L-Pack. There are no issues that we wish to draw your attention to.

DRAFT

Appendix 1

Anthony Barrett
Wales Audit Office
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Eich Cyf/Your Ref:
Ein Cyf/Our Ref: SF/M27
Dyddiad/Date: 27 September 2010
Gofynner am/Ask for: S Forrest
Rhif Union/Direct Dial: 01492 576179

Dear Sir

2009/2010 Statement of Accounts of North Wales Fire Authority

This representation letter is provided in connection with your audit of the accounting statements and related notes of the North Wales Fire Authority (the Authority) for the year ended 31 March 2010 for the purpose of expressing an opinion as to whether they give a true and fair view, in all material respects, the financial position of the Authority as at 31 March 2010 and of the result of its operations and its cash flows for the year then ended in accordance with the Accounts and Audit (Wales) Regulations 2005(as amended) and the Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice 2009 (the SORP).

Representations made by Management

Overall Representations

1. All the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records.
2. There are no pooled budget projects arising from any partnership agreements, joint ventures or joint arrangements other than those disclosed in the accounting statements and associated notes.
3. The Authority has complied with all conditions imposed by relevant grant paying organisations and has received the amounts of grant included within the accounts.

4. The Authority has complied with all aspects of contractual agreements that would require adjustment to, or disclosure in, the accounting statements and related notes.
5. The accounting statements and related notes are free of material misstatements, including omissions.
6. All accounting records and supporting documentation and all minutes of meetings of the Authority have been made available to you.
7. The Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the accounting statements and related notes.
8. The measurement methods, including the related assumptions, used in determining fair values are appropriate and have been applied consistently. Disclosures relating to fair values are complete and appropriate.
9. There were no uncorrected misstatements.
10. All the amendments in the SORP requirements, particularly those relating to accounting for Public Finance Initiative and similar schemes have been considered and the appropriate entries made in the 2009/10 Statement of Accounts.

ASSETS

General

11. All assets included in the balance sheet were in existence at the balance sheet date and owned by the Authority, and free from any lien, encumbrance or charge, except as disclosed in the accounts. The balance sheet includes all tangible assets owned by the Authority.

Fixed Assets

12. Appropriate assets over £100 are capitalised. Buildings are revalued every five years using 'open market value' for office accommodation and 'depreciated replacement cost' for fire stations. All the Authority's buildings are depreciated over their estimated useful life and a charge made for depreciation. Other assets are recognised at historic cost and depreciated over their useful lives. In light of the current economic climate asset values have also been reviewed for impairment.

Current Assets

13. On realisation in the ordinary course of the Authority's operations, the other current assets in the balance sheet are expected to produce at least the amounts at which

they are stated. Adequate provision has been made against all amounts owing to the Authority which are known, or may be expected, to be irrecoverable.

14. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

Investments

15. All investments included in the balance sheet were in existence at the balance sheet date and owned by the Authority, and free from any lien, encumbrance or charge, except as disclosed in the accounts. The balance sheet includes all investments owned by the Authority. The Authority's investments have been reviewed for impairment and any such impairment is reflected in the financial statements accordingly.

LIABILITIES

16. All liabilities, both actual and contingent, have been recorded and disclosed as appropriate as well as all guarantees that we have given to third parties.
17. There is no pending litigation which may result in significant loss to the Authority, and which have not been disclosed in the accounting statements and related notes, either as current or contingent liabilities.
18. All obligations under finance leases or hire purchase contracts have been disclosed in the accounts.
19. All unfunded benefits (such as discretionary added years) have been considered in the compilation of the FRS17 figures included in the accounting statements and related notes.

Results

20. The results for the year were not materially affected by transactions of a sort not usually undertaken by the Authority, or circumstances of an exceptional or non-recurring nature.

Internal Control

21. I acknowledge my responsibility for the design and implementation of internal control to prevent and detect error.
There have been no:

- irregularities involving management 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 in, financial reporting practices that could have a material effect on the financial statements.

Post Balance Sheet Events

22. Except as discloses in the accounting statements and related notes, there have been no material changes since the date of the balance sheet affecting liabilities and commitments, and no events or transactions have occurred which, though properly excluded from the accounting statements and related notes, are of such importance that they should have been brought to the notice of the auditor.

Representations by those charged with governance

23. We acknowledge that the representations made by management, above, have been discussed with us.
24. We acknowledge our responsibility for the fair presentation of the accounting statements and related notes in accordance with the applicable financial reporting framework.
25. We acknowledge our collective responsibility for the preparation of the Statement of Accounts, which has been approved by the Authority.
26. We have disclosed to you all known or possible non-compliance with laws and regulations whose effects should have been considered when preparing the accounting statements and related notes.
27. There are no other material transactions with related parties (as defined by FRS 8 and the SORP), other than those recorded and disclosed in the accounting statements and related notes.
28. We acknowledge our responsibility for the design and implementation of internal control to prevent and detect fraud and have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

29. We have no knowledge of fraud, allegations of fraud, or suspected fraud affecting the Authority or the Authority's accounting statements.
30. We confirm, to the best of our knowledge and belief, that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Signed by

Treasurer

Date 27 September 2010

Chairman

Date 27 September 2010

Appendix 2

Summary of corrected misstatements identified in draft financial statements

| Nature of misstatement | Comment |
|---|--|
| Dr Local Authorities debtors £55,508 Dr Sundry Debtors £372 Cr Government department debtors £55,880 | Reclassification of debtors balance |
| Dr Prepayments £41,663 Cr I&E £41,663 | Prepayment which should have been included at year-end |
| Dr Movement on the general fund £41,663 Cr Earmarked reserves £41,663 | Transfer of amounts prepaid to earmarked reserves |
| Dr Provisions £85,000 Cr I&E £85,000 | Release of provision for job evaluation as relates to future costs |
| Dr Movement on the general fund £85,000 Cr Earmarked reserves £85,000 | Transfer of job evaluation provision to earmarked reserves |
| Dr Provisions £100,000 Cr I&E £100,000 | Reduction in provision for equal pay for retained firefighters due to pro rata of service required |
| Dr Movement on the general fund £100,000 Cr Earmarked reserves £100,000 | Creation of earmarked reserve relating to future potential costs arising from equal pay claims of firefighters |
| Dr I&E £1,992,000 Cr Movement on the general fund £1,992,000 | To recognise the impairment in fixed assets through the I&E account as a result of amended guidance in SORP 2008 |
| Dr Fixed asset cost b/f £1,510,000 Cr Fixed asset depreciation b/f £1,510,000 Dr Impairment cost £17,000 Dr Revaluation and impairment depreciation £1,510,000 Cr Revaluation cost £1,527,000 | To correct the fixed asset note presentation of the revaluation during the year |

Summary of uncorrected misstatements

| Nature of misstatement | Comment |
|------------------------|---------|
| None | |
| | |
| | |

Appendix 3

Summary of non material control weaknesses

| No. | Observation and risk | Recommendation | Management response |
|-----|--------------------------------------|----------------|---------------------|
| 1 | | | |
| | No weaknesses identified in 2009-10. | | |

Appendix 3

Update on 2008/09 summary of non material internal control items

| No. | Observation and risk | Recommendation | Update |
|-----|---|--|---|
| 1 | <p>Capitalisation policy</p> <p>It was noted that a number of items included within additions to fixed assets in the year were not capital in nature.</p> <p>These had been included within capital planned maintenance costs.</p> | <p>Recommendation</p> <p>A formal review process should be adopted to ensure only appropriate expenditure is capitalised in future.</p> <p>2008/09 management response</p> <p>Further guidance on what constitutes capital expenditure will be issued to staff members who are responsible for procuring capital works and to staff responsible for processing invoices for payment.</p> <p>A review of all capital payments processed will be undertaken quarterly by Conwy County Borough Council staff to ensure all invoices paid as capital works meet the definition of capital expenditure.</p> | <p>KPMG update</p> <p>This process has been improved in 2009-10 and no issues have arisen in this area during the audit.</p> |

| | | | |
|----------|---|---|--|
| 2 | Accounting for retentions | | |
| | It was noted that the Authority had no process for routinely identifying current retentions owed on development works and accounting for them as current liabilities. | <p>Recommendation A process should be established to identify the level of retentions owed to contractors as part of the financial close down procedures.</p> <p>2008/09 management response Amendment to the year end procedures to include direct contact with the Estates Department by Conwy County Borough Council staff to ascertain the level of retentions owed to contractors at year end.</p> | <p>KPMG update This process has been improved in 2009-10 and no issues have arisen in this area during the audit.</p> |
| 3 | Impairment of non-attributed costs | | |
| | Capitalised planned maintenance costs are not currently allocated to the individual fire stations to which they relate on the fixed asset register. As a result some were incorrectly impaired in the current year. | <p>Recommendation Capitalised works to fire stations should be allocated to the stations to which they relate on a timely basis.</p> <p>2008/09 management response Year end procedures will be amended to include allocation of planned capital maintenance costs to individual fire stations.</p> | <p>KPMG update This process has been improved in 2009-10 and no issues have arisen in this area during the audit.</p> |

| | | | |
|---|---|---|--|
| 4 | Service level agreement with Conwy County Borough Council | | |
| | <p>Throughout the year there was no formal contract in place between the Authority and CCBC for the provision of financial services (including the preparation of the financial statements). Whilst an implied contract may have arisen following continued performance by both the Authority and CCBC (with a fee for services being paid to CCBC and them providing such services), it remains a significant risk to the Authority not to have a documented contract for such a key service.</p> <p>This increases the likelihood of contractual disputes and an expectation gap developing between the Authority and CCBC.</p> | <p>Recommendation</p> <p>A formal contract for the year be agreed and signed by the Authority and CCBC.</p> <p>A process should be put in place for the annual review and re-negotiation of such contract. This ideally should be performed in advance of the commencement of the year to which it relates.</p> <p>2008/09 management response</p> <p>Although there was no formal contract for 2008/09 negotiations had taken place prior to the expiry of the previous contract between the Deputy Chief Fire Officer and the Section 151 Officer for Conwy County Borough Council and a verbal agreement was in place that Conwy would continue to provide the same level of financial services for the next three years.</p> <p>The contract has now been signed and the next review date will be prior to the expiry of the new agreement in March 2011.</p> | <p>KPMG update</p> <p>A formal signed contract is now in place.</p> |



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