

# Annual Governance Report

**Hereford and Worcester Fire and Rescue  
Authority**

Audit 2009/10

**24 June 2010**

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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 non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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Ladies and Gentlemen

### **2009/10 Annual Governance Report**

I am pleased to present this report on the results of my audit work for 2009/10. The audit work on the accounts is substantially complete. However, I have been unable to complete my work because:

- the public and interested parties have not yet had the opportunity to exercise their rights of inspection and challenge to the financial statements; and
- I have not yet completed my investigation into the matter of the retirement of the outgoing Chief Fire Officer.

I would emphasise, however, that I am unable to complete my audit until these matters are completed.

Events may occur or information come to my attention which may lead to the identification by me of material mis-statements or limitations of scope such that I would give a non-standard opinion on the Fire and Rescue Authority's financial statements. Whilst I am not anticipating this I recommend that a meeting of the Audit Committee is arranged, should it be needed, to receive any further amendments to this Annual Governance Report and to consider the impact of any such events and to agree any further changes to the accounts.

A draft of the report was discussed and agreed with the Treasurer on 21 June 2010 and will continue to be updated as issues are resolved. The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 4 to15);
- take note of the adjustments which were required to the draft financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Authority and have arrangements in place for it to be signed before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Grant Patterson  
District Auditor

24 June 2010

# Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

<b>Financial statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	8-13
Financial statements free from material error	Yes	10-12
Adequate internal control environment	Yes	12-13
<b>Value for money</b>	<b>Results</b>	<b>Page</b>
Adequate arrangements to secure value for money	TBC	14-15

## Audit opinion

- 1 At the time of writing this report I have been unable to complete my work because:
  - the public and interested parties have not yet had the opportunity to exercise their rights of inspection and challenge to the financial statements; and
  - I have not yet completed my investigation into the matter of the retirement of the outgoing Chief Fire Officer.
- 2 Subject to the satisfactory clearance of the outstanding matters I plan to issue an audit report including an unqualified opinion on the financial statements.

## Financial statements

- 3 The financial statements were presented for audit on 21st May 2010, significantly before the statutory deadlines. Whilst there was a significant improvement from last year we identified errors in the draft financial statements (other than those of a trivial nature) and reported these to management. All of these have been amended.
- 4 The significant matters which I wish to bring to your attention are:
  - My agreement with the Authority's inclusion of a contingent asset note in the financial statements, rather than recognising income at this time, in respect of the potential liabilities of the constituent authorities in the matter of the outgoing Chief Fire Officer.
  - The primary objective of the SORP in respect of the firefighters' pension fund is to allow the separation of the cost of providing pensions from the cost of running a fire

## 0BKey messages

and rescue service. This is a complex accounting area and whilst the Authority's approach this year is consistent with previous years it has become clear that some pension fund assets and liabilities had been incorrectly recognised in the Authority's balance sheet. I have worked with the Authority's officers to ensure the financial statements are fully compliant. This has resulted in changes to the Cashflow statement and firefighters' pension fund disclosures but there has been no impact upon the deficit shown on the Income & Expenditure Account for the year.

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### Value for money

- 5 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the 9 areas in Appendix 5. My current view is that whilst I am minded to conclude that your overall arrangements, including good governance, are adequate there has been a potential and isolated, failure in at least one aspect of the Authority's internal control and risk management which has resulted in the inclusion of an exceptional item and contingent asset within the Authority's financial statements, potential incurrence of additional costs and loss of reputation for the Authority.
- 6 At the time of writing this report my investigations into the matter of the retirement of the Chief Fire Officer are ongoing. I am therefore not in a position to formally conclude upon the organisational significance of any potential failures in the Authority's arrangements at this time. Following completion of my investigation I will need to revisit my conclusions on the Criterion of Risk Management and internal control and any others if necessary. As I am not in a position to finalise my judgements at this time I have not provided a copy of my draft audit report but will supply one when I finalise my work and this annual governance report.

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### Audit fees

- 7 Further to the External Opinion plan presented to you in January 2010 further audit testing beyond that original planned has been necessary. This has been on the following area:
  - Additional detailed checking of the data submitted to the Government Actuary's department for the calculation of the Firefighters pension fund accounting entries, being for the Firefighters Pension scheme (1992 scheme); the new Firefighters pension scheme (2006 scheme) and the Firefighters Compensation Scheme (Injury scheme). It had been planned that assurance could be obtained from the Authority's procedures however this was found not to be in place. Therefore additional work was involved in sample checking of data for the different categories of firefighters being Actives; Deferred; Pensioners; Ill-health pensioners; Injury awards and dependants. This work required the gathering of the data from several sources and the agreeing of this data to prime payroll and pension data.
- 8 I will consider the full impact on the agreed audit fee on completion of the audit. My current estimate is that we have spent 4.5% more time (equivalent to an additional fee of £2,250) on the opinion audit than we had planned for.

- 9** The costs relating to my investigation in the retirement of the Chief Fire Officer will be reported separately to the Authority.

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**Independence**

- 10** I can confirm that there were no relationships giving rise to a threat to independence, objectivity and integrity.

# Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

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**11** I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 8 to 15);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Authority and have arrangements in place for it to be signed before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

# Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As Authority members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

## Opinion on the financial statements

- 12** In seeking to reach a conclusion on whether the Authority's accounts are free from material misstatement (the materiality guideline I have used is 2% of Gross Expenditure - approximately £640K for the Authority's statements and 1% of Expenditure on the Firefighters Pension Fund approximately £73K) I will consider the total impact of any errors and uncertainties identified by my audit testing.
- 13** At the time of writing this report I have been unable to complete my work because:
- the public and interested parties have not yet had the opportunity to exercise their rights of inspection and challenge to the financial statements; and
  - I have not yet completed my investigation into the matter of the retirement of the outgoing Chief Fire Officer.
- 14** Subject to the satisfactory clearance of the outstanding matters I plan to issue an audit report including an unqualified opinion on the financial statements. However, I am unable to complete my audit until these matters are completed. As a result there is the possibility that events may occur or information come to my attention which may lead me to give a non-standard opinion on financial statements. Whilst I am not anticipating this I have therefore not provided a copy of my draft audit report at this time but will supply one when I finalise my work and this annual governance report.

## Key areas of judgement and audit risk

- 15** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
Fixed asset additions	Sample tests on fixed asset additions have been undertaken and no errors have been identified.
Transfer of New Dimension Assets from Central Government	Central Government transferred these assets to the Authority on the 1 April 2010

## 2B Financial statements

Issue or risk	Finding
	and they will be audited in 2010/11.
Compliance with SORP for impairment reviews of fixed assets	No issues have been identified from the results of the audit sampling tests.
Changes in fixed asset accounting (depreciation) related to the implementation of IFRS	During the year these requirements as part of the preparation for the implementation of IFRS accounting were reviewed. It was found that no changes were required.
Implementation of asset management module	The transfer of data at the start of the year was tested and no errors were identified. However, a resilience risk has been identified in that only one member of the finance team currently has detailed knowledge of the operations of the asset management module (further detail referred to in paragraph 28 of this report). The Authority is putting arrangements in place to address this risk.
Pensions - The receipt of information from the Government's Actuarial Department (GAD) in accordance with the FRA's closure timetable	The information was received in accordance with the Authority's accounts closure timetable.
Quality assurance undertaken in the preparation of the financial statements	A working paper requirement schedule was provided to the finance team and I am pleased to report that the working papers provided were improved from those for the 2008/09 accounts. However, there remains room for continued improvement in this and the quality assurance arrangements, for instance the disclosure arising from the new requirements relating to council tax debtors and the presentation of the Firefighter's pension fund account.
Accuracy of the data submitted to the Government's Actuarial Department in respect of the fire-fighters pension arrangement	As detailed later in the report the audit was not able to place reliance on the Authority's controls which has affected the efficiency of the audit. The Authority had undertaken its own checks of unusual items and identified a non trivial error of £8K. I am required to obtain assurance across the population and detailed checking of the submission was undertaken by the audit team and no additional errors were identified.

Issue or risk	Finding
A service level agreement with Worcestershire County Council for the provision of the pensions service	A service level agreement dated 2003 is in place with Worcestershire County Council for the provision of the pensions service.
Journals not being subject to review enabling self authorisation	As detailed later in the report specific testing has been undertaken on these journals and no errors have been identified.

Recommendation
<p><b>R1</b> In order to ensure the Authority's requirement for an early audit view on the financial statements continues to be met resources should be available and appropriate allocated to the preparation and quality assurance of the financial statements.</p>

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### Errors in the financial statements

- 16** The financial statements were presented for audit on 21st May 2010, significantly before the statutory deadlines. The early closure of accounts is in line with good practice however it does present challenges for the Authority in having robust preparation and quality assurance processes in place.
- 17** The financial statements and working papers presented for audit were a significant improvement upon those made available in 2008/09. However as part of my audit I identified errors in the draft financial statements (other than those of a trivial nature) and reported these to management. All of these have been amended and there are no unadjusted misstatements.

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### Matters of governance interest

- 18** As part of my audit responsibilities I am required to report to you those matters of governance interest that I feel are both important and relevant to you in your role of overseeing the financial reporting and disclosure process. In discharging this duty I have taken into account the challenges presented by early closure. For completeness I have summarised all of the non-trivial adjustments in Appendix 2 but the key issues I wish to bring to your attention are in respect of:
- the contingent asset note in respect of the potential liabilities of the constituent authorities in the matter of the outgoing Chief Fire Officer;
  - presentation of the Cashflow and Firefighters' Pension Fund Statements; and,
  - the new requirements of accounting for council tax debtors and creditors within the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2009 (SORP).

## 2B Financial statements

### Contingent asset

- 19** The Authority has created a provision of £538k to meet a potential liability arising from the retirement of the outgoing Chief Fire Officer. I am satisfied this disclosure is appropriate and in accordance with the SORP. The potential liability has been quantified and recognised in the financial statements as an exceptional item and provision.
- 20** I am aware that discussions are in progress with the aim of seeking compensatory contributions and my current understanding is that the Constituent Authorities are seeking their own legal opinions to satisfy themselves that of the potential liability faced by the Authority.
- 21** The SORP requires that in certain cases income should not be recognised until it has become virtually certain that an inflow of economic benefits will occur. Examples would include income receivable from legal claims. In these circumstances an organisation should disclose a contingent asset in the notes to the financial statements. Contingent assets are not recognised in the Income and Expenditure Account or the Balance Sheet because prudence cautions that the gain might never be realised. When realisation of the gain is virtually certain, then the item ceases to be a contingent asset and can be accounted for as revenue or capital income as appropriate.
- 22** I recognise that the position may change and certainty be reached in the very near future. However, as at the balance sheet date and based upon the facts of the issue at this time I concur with the disclosure. The sum is not material and has been shown as an adjusted item in Appendix 2.

### Firefighters' Pension Fund

- 23** The primary objective of the SORP in respect of the firefighters' pension fund is to allow the separation of the cost of providing pensions from the cost of running a fire and rescue service. This is a complex accounting area and whilst the Authority's approach this year is consistent with previous years it has become clear that some pension fund assets and liabilities had been incorrectly recognised in the Authority's balance sheet.
- 24** I have worked with the Authority's officers to ensure the financial statements are fully compliant. This has resulted in changes to the Authority's Cashflow statement and firefighters' pension fund disclosures but there has been no impact upon the deficit shown on the Income & Expenditure Account for the year.

### Accounting for Council Tax Debtors

- 25** In 2009/10 there is a new requirement for to reflect the fact that the cash collected by the major billing authorities (which are Herefordshire Council and the 6 district councils in Worcestershire) from Council Tax payers belongs proportionately to the billing authorities and the major preceptors (which include the Authority together with Herefordshire Council, Worcestershire County Council and West Mercia Police Authority).
- 26** The information provided to the Authority was not subjected to review and it was found that the debtors and creditors on the balance sheet had both been overstated by

£244K but this has no impact on the deficit shown on the Income & Expenditure Account for the year. As this is a new requirement the comparatives were also reviewed and found to be incorrect with an overstatement of debtors and creditors on the balance sheet of £170K again with no impact on the Income & Expenditure Account for the year. These amounts are not material to my opinion and the financial statements have been corrected for these items.

### Recommendation

**R2** Processes are put in place to review the data from the billing authorities to ensure that they are correctly treated in accordance with the requirements of the SORP

### Important weaknesses in internal control

**27** My audit has not identified any material weaknesses in internal control. However, a number of control and process weaknesses have impacted upon the efficiency of our audit and required additional audit testing. The Authority has agreed to address these weaknesses which have again impacted upon the audit fee for this year and will also require additional unplanned work in 2010/11. The weaknesses I wish to bring to your attention are:

#### Government's Actuary Department data

**28** The reporting of data to the Government's Actuary Department (GAD) for the calculation of the Firefighters pension fund accounting entries, being for the Firefighters Pension scheme (1992 scheme); the new Firefighters pension scheme (2006 scheme) and the Firefighters Compensation Scheme (Injury scheme). Following the identification of the issue at last year's audit improvements were expected to be made.

**29** It had been planned that assurance could be obtained from the Authority's improved procedures however they were found not to be in place. Therefore additional work was involved in sample checking of data for the different categories of firefighters being Actives; Deferred; Pensioners; Ill-health pensioners; Injury awards and dependants. This work required the gathering of the data from several sources and the agreeing of this data to prime payroll and pension data. From the additional tests undertaken I am satisfied that no material error has occurred.

#### Self-certification of journals

**30** The processing of journals which are not subject to review enabling self authorisation of journals. Six journals have been processed through the ledger to the value of £1.85m which have been created and authorised by the same person. These journals are related to the transfer of amounts between general ledger codes and do not impact on the Authority's cash balances. This is a failing in the control that would have been provided by segregation of duties. From the additional tests undertaken I am satisfied that these journals have not given rise to a material misstatement in the accounts.

## 2B Financial statements

### Asset management module

- 31** Within the finance team currently only one member has detailed knowledge of the asset management module. Although this did not result in any errors being identified this knowledge should be shared across the team and the authority is putting these arrangements in place.
- 32** Several other minor control weaknesses were identified which will be reported to the Treasurer by way of a supplementary memorandum upon conclusion of the audit. I will consider the full impact on the agreed audit fee on completion of the audit. My current estimate is that we have spent 4.5% more time (equivalent to an additional fee of £2,250) on the opinion audit than we had planned for.

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### Accounting practice and financial reporting

- 33** I consider the non-numeric content of your financial reporting. I have no further matters to report other than those identified in Table 1 above.
- 34** The audit identified in the financial statements presented for audit that within the Income and Expenditure account that the costs of the Corporate management team together with those of the Policy & performance unit are reported within the Corporate and Democratic Core section of the analysis of the Net cost of service. It would be expected that a proportion of these costs relate to Operational headings in line with the requirements of the Best Value Accounting Code of Practice (BVACOP) and the matter was raised with your officers. The accounts circulated for your approval include amendments for this disclosure. These adjustments were received for audit on the 23 June 2010. This report has been prepared prior to the completion of work on these adjustments.
- 35** The presentation of the accounts will change next year with the implementation of new requirements for the accounting for local government bodies in accordance with International Financial Reporting Standards (IFRS).

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### Letter of representation

- 36** Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Specific representation has been included in respect of the exceptional expenditure included within the financial statements together with the confirmation that arrangements are in place to prevent any conflict arising from the position held by the Treasurer of the Authority as Director of Finance of Worcestershire County Council. Appendix 4 contains the draft letter of representation I seek to obtain from you.

# Value for money

**I am required to decide whether the Authority put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.**

## Value for money conclusion

- 37** The Code of Audit Practice (the Code) requires me to include a conclusion in my statutory audit report as to whether I am satisfied that you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the financial year subject to audit. This requirement flows from the statutory requirement on auditors to be satisfied that audited bodies have proper arrangements for securing economy, efficiency and effectiveness in the use of resources under Section 5(1)(e) of the Audit Commission Act 1998 (the Act).
- 38** My conclusion is informed and limited by reference to 'relevant criteria' covering specific aspects of your arrangements as specified by the Audit Commission in accordance with paragraph 7 of the Code. For fire and rescue authorities the criteria for assessing use of resources have been aligned directly with the relevant criteria for reaching the Code conclusion on Value for Money arrangements. Therefore, all the assurance I need for my Value for Money conclusion may be drawn from the information required for the Key Lines of Enquiry.
- 39** On 26 May 2010 the Audit Commission announced it was withdrawing scored use of resources judgements as part of the cessation of comprehensive area assessment. At the time of the announcement I had completed my work on this area of the audit and was minded to conclude that the Authority's overall performance across the themes had been maintained from last year.
- 40** With the cessation of scored judgements and the associated national comparisons I will no longer formally conclude or report further on your absolute performance. However, I am still required to consider my VfM Conclusion and analyse my findings against each criterion. To reach my conclusion, I consider whether specific aspects of your arrangements are, adequate or not. To do this I consider the 'Getting the basics right' guidance for the focus areas in each Code criterion and any other relevant information of which I am aware.
- 41** I have shown my conclusions on each of the 9 areas in Appendix 5. My current view is that whilst I am minded to conclude that your overall arrangements, including good governance, are adequate there has been a potential isolated, failure in at least one aspect of the Authority's internal control and risk management which has resulted in the inclusion of an exceptional item and contingent asset within the Authority's financial statements. I consider this important because a sound system of internal control should include:
- delivering the core functions of an audit committee;
  - providing effective internal audit in accordance with relevant requirements;

### 3B Value for money

- an assurance framework informing transparent governance reporting;
- standing orders, standing financial instructions and a scheme of delegation;
- ensuring compliance with relevant laws and regulations and that expenditure is lawful; and
- sound internal financial control for key systems, for example the general ledger, housing and council tax benefit system, payroll, accounts receivable and accounts payable and all electronic payment systems.

**42** I apply my judgement in assessing whether each Code criterion has been met. If the answer to this question for one or more of the specified criteria is 'no' I need to consider qualifying my Value for Money conclusion. Depending on the scale and significance of the issues giving rise to negative answers I consider whether to express an adverse conclusion or give a qualified 'except for' conclusion.

**43** The potential isolated failure is in respect of ensuring compliance with relevant laws and regulations and that expenditure is lawful. At the time of writing this report my investigations into the matter of the retirement of the outgoing Chief Fire Officer are ongoing. I am therefore not in a position to formally conclude upon the significance of the potential failure, and whether a qualification of my VfM conclusion, is required at this time. Following the completion of my investigation I will revisit the Criterion of Risk Management and internal control and any others if necessary. As I am not in a position to finalise my judgements at this time I have not provided a copy of my draft audit report but will supply one when I finalise my work and this annual governance report.

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#### Recommendation

**R3** The Authority's governance review is extended to include a review of the circumstances which led to the exceptional items within the Authority's accounts and implement amendments to strengthen its current arrangements.

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# Glossary

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## Annual governance statement

- 44** 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.
- 45** It comprises the systems and processes, and 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.
- 46** 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.

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## Audit closure certificate

- 47** A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

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## Audit opinion

- 48** 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.

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## Qualified

- 49** The auditor has some reservations or concerns.

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## Unqualified

- 50** The auditor does not have any reservations.

### Value for money conclusion

- 51** 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 resources.

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### SORP

- 52** The Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2009 (SORP) specifies the principles and practices of accounting required to prepare a Statement of Accounts which 'presents fairly' (or, if as expected legislation is amended, gives a 'true and fair' view of) the financial position and transactions of the Authority.

# Appendix 1 – Independent auditor’s report to Members of Hereford and Worcester Fire and Rescue Authority

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To be provided once:

- the public and interested parties have had the opportunity to exercise their rights of inspection and challenge to the financial statements; and
- I have completed my investigation into the matter of the retirement of the outgoing Chief Fire Officer.

# Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during the course of my audit and the draft financial statements have been adjusted by management. I bring them to your attention to aid you in fulfilling your governance responsibilities. For this purpose I am required to report all items that are 'non-trivial' that have been identified during the audit before I issue my opinion. The definition of 'trivial' requires me to report any items above £6k. This is reflected in the table below.

**Table 2**

Adjusted misstatements	Nature of adjustment	Income and Expenditure Account		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Council Tax	Council Tax Debtor/Council Tax Creditor/Billing Authority Creditor			244	244
Reclassification of exceptional income for potential recovery of monies on matter relating to retirement of CFO as a contingent asset	Income/Debtor/Long term debtor	538			538

# Appendix 3 – Draft letter of representation

To:

Grant Patterson  
Officer of the Audit Commission  
Opus House  
Priestley Court  
Stafford Technology Park  
Beaconside  
Stafford  
ST18 OLQ

## **Hereford & Worcester Fire & Rescue Authority - Audit for the year ended 31 March 2010**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Hereford & Worcester Fire & Rescue Authority the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2010.

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### **Compliance with the statutory authorities**

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which gives a true and fair view of the financial position and financial performance of the Authority and for making accurate representations to you.

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### **Supporting records**

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 meetings, have been made available to you.

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### **Irregularities**

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

## Appendix 3 – Draft letter of representation

- 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; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

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### Law, regulations, contractual arrangements and codes of practice

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 Authority.

The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

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### Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For valuation of land and buildings, debtors, creditors and provisions assumptions, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- that subsequent events do not require adjustment to the fair value measurement.

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### Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

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### Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note X to the financial statements we have no other lines of credit arrangements.

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### Contingent liabilities

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.

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### Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

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### Post balance sheet events

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.

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.

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### Specific representations:

No further amounts are expected to be claimed in respect of the exceptional expenditure included within the financial statements. Arrangements are in place to prevent any conflict arising from my position as Treasurer of the Authority and my position as Director of Finance of Worcestershire County Council.

### Appendix 3 – Draft letter of representation

Signed on behalf of Hereford & Worcester Fire & Rescue Authority I confirm that the this letter has been discussed and agreed by the Authority on [date]

Signed

Name

Position

Date

# Appendix 4 – Value for money criteria

<b>KLOE</b>	<b>Met</b>
<b>Managing finances</b>	
Planning for financial health	<b>Yes</b>
Understanding costs and achieving efficiencies	<b>Yes</b>
Financial reporting	<b>Yes</b>
<b>Governing the business</b>	
Commissioning and procurement	<b>Yes</b>
Use of information	<b>Yes</b>
Good governance	<b>Yes</b>
Risk management and internal control	<b>TBC</b>
<b>Managing resources</b>	
Natural resources	<b>Yes</b>
Strategic asset management	<b>N/A</b>
Workforce	<b>Yes</b>

## Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Governance Report 2009/10 - Recommendations</b>						
10	R1. In order to ensure the Authority's requirement for an early audit view on the financial statements continues to be met resources should be available and appropriate allocated to the preparation and quality assurance of the financial statements.	2				
12	R2. Processes are put in place to review the data from the billing authorities to ensure that they are correctly treated in accordance with the requirements of the SORP	2				
15	R3. The Authority's governance review is extended to include a review of the circumstances which led to the exceptional items within the Authority's accounts and implement amendments to strengthen its current arrangements.	3				

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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.

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