

## **5. External Audit Annual Governance Report 2010/11**

### **Purpose of report**

1. To consider and note the issues set out in the External Auditors Report.
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### **Recommendations**

#### ***The Treasurer recommends that the Committee:***

- i) considers and notes the External Audit Annual Governance Report 2010/11, attached at Appendix 1;***
- ii) approves the letter of representation on behalf of the Authority; and***
- iii) agrees the response to the proposed action plan set out in the attached report.***

### **Annual Governance Report 2010/11**

2. The External Auditor's Report will continue to be updated as issues are resolved and sets out the following key issues for the Committee to consider, prior to completion of the audit:
  - Consider the matters raised in the report (pages 6 to 11) prior to approving the financial statements
  - Note the adjustments to the financial statements set out in the appendix 2 of the External Auditor's report
  - Approve the letter of representation on behalf of the Authority before the External Auditor issues their opinion and conclusion (appendix 3)
  - Agree the response to the proposed action plan set out at appendix 5 of the attached report

### **Proposed Action Plan**

3. The recommended action plan from the External Auditor is set out at appendix 5 of the attached report, as follows:
  - The Authority should review the skills and capacity within the finance team against its roles and responsibilities in order to satisfy itself that appropriate arrangements are in place, specifically including the preparation and quality assurance of the financial statements.

4. The response to the proposed action plan is that resourcing for the 2011/12 accounts process will be addressed in a timely manner.

### Conclusion/Summary

5. The Committee is required to consider the matters set out in the External Audit Annual Governance Report 2010/11, prior to approving the financial statements.

### Financial Considerations

Consideration	Yes/No	Reference in Report i.e paragraph no.
There are financial issues that require consideration	Yes	Paragraph 2

### Legal Considerations

Consideration	Yes/No	Reference in Report i.e paragraph no.
There are legal issues e.g. contractual and procurement, reputational issues that require consideration	No	

### Additional Considerations

The table below sets out any additional issues arising from the proposals contained in this report and identifies the relevant paragraphs in the report where such issues are addressed.

Consideration	Yes/No	Reference in Report i.e paragraph no.
<b>Resources</b> (e.g. Assets, ICT, Human Resources, Training & Development, Sustainability).	Yes	Paragraphs 2 and 4
<b>Strategic Policy Links</b> (e.g. IRMP, Authority Plan, Equality & Diversity, Partnerships, Environmental Impact).	No	
<b>Risk Management / Health &amp; Safety</b> (e.g. risk management and control measures, risk register score).	No	
<b>Consultation with Representative Bodies</b>	No	

### Supporting Information

Appendix 1 – External Audit Annual Governance Report 2010/11

### Contact Officer

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# **Annual governance report**

**Hereford and Worcester Fire and Rescue Authority  
Audit 2010/11**

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to authorities, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

# Contents

<b>Key messages</b> .....	<b>3</b>
Audit opinion .....	3
Financial statements .....	4
Value for money .....	4
Audit fees .....	4
Independence .....	4
<b>Next steps</b> .....	<b>5</b>
<b>Financial statements</b> .....	<b>6</b>
<b>Value for money</b> .....	<b>12</b>
<b>Appendix 1 Draft independent auditor's report to Members of Hereford and Worcester Fire and Rescue Authority</b> .....	<b>14</b>
<b>Appendix 2 Amendments to the draft financial statements</b> .....	<b>18</b>
<b>Appendix 3 Draft letter of representation</b> .....	<b>19</b>
<b>Appendix 4 Glossary</b> .....	<b>22</b>
<b>Appendix 5 Action plan</b> .....	<b>24</b>

Ladies and Gentlemen

### **2010/11 Annual Governance Report**

I am pleased to present the results of my audit work for 2010/11. The audit work on the accounts is substantially complete. However, I have been unable to complete my work because more time than would be expected has had to be spent on the audit. The working papers, explanations provided and the method of accounting in your financial statements have all contributed to this increased time.

I would emphasize that I am unable to complete my audit until I have received all the explanations and working papers to support the entries within your financial statements.

A draft of my report was discussed and agreed with the Treasurer on 20 September 2011 and will continue to be updated as issues are resolved. My 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 6 to 11);
- note the adjustments to the financial statements set out in this report (appendix 2);
- approve the letter of representation on behalf of the Authority 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

23 September 2011

# Key messages

**This report summarises the findings from the 2010/11 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.**

Table 1: **Key messages - financial statements**

<b>Financial statements</b>	<b>Results</b>	<b>Pages</b>
Unqualified audit opinion	TBC	6-11
Important weaknesses in internal control	No	

Table 2: **Key messages - value for money**

<b>Value for money</b>	<b>Result</b>	<b>Pages</b>
Proper arrangements to secure value for money	Yes	12-13

## **Audit opinion**

**1** At the time of writing this report I have been unable to complete my work because the following issue remains outstanding:

- clearance of audit queries in respect of property, plant and equipment assets; and
- agreeing amendments to the final version of the financial statements.

**2** Subject to the satisfactory clearance of my enquiries 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 30 June 2011 in line with the statutory deadline. However, the complexities of the transition to IFRS combined with reduced capacity within the finance team have proved greater than envisaged and had a significant impact upon the quality of the financial statements presented for audit and the working papers to support them. The standard of these financial statements was a deterioration from last year and more time than would be expected has had to be spent on the audit.

4 As part of my audit I identified one material error in the draft financial statements and reported this to management. A journal had been processed incorrectly resulting in short term debtors and short term creditors being overstated by £2.5 million. This is detailed in appendix 2 and has been corrected in the financial statements.

## 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 Committee. Overall I expect to be able to conclude that there are satisfactory arrangements in place to secure economy, efficiency and effectiveness and therefore propose to issue an unqualified value for money conclusion.

## Audit fees

6 As a result of the issues highlighted above and those yet to be resolved the audit is taking longer than I had previously experienced and planned for when the fee was agreed. The additional time spent in order to complete the audit is significant and a supplementary audit fee will be required. My current estimate is that we have spent over 10 per cent more time (equivalent to an additional fee of £7,000) on the audit than we had planned for. I will consider the full impact on the agreed audit fee on completion of the audit.

## Independence

7 I can confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

8 The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2010/11.

## 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.**

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

- consider the matters raised in the report before approving the financial statements (pages 6 to 11);
- 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 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

- 10** Subject to the satisfactory clearance of the outstanding matter of:
- agreeing amendments to the final version of the financial statements.

I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report. However, I am unable to complete my audit until this matter is 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 the financial statements.

## Key areas of judgement and audit risk

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

Table 3: **Key areas of judgement and audit risk**

Issue or risk	Finding
<b>Quality Assurance</b> In 2009/10 we identified that improved quality assurance in the preparation of the financial statements could lead to a more effective and efficient audit.	A working paper requirement schedule was provided to the finance team. Working papers were not available as expected at the start of the audit. The standard of the financial statements including the accuracy of the disclosures and the working papers was a deterioration from last year and below the standard expected (see paragraphs 24 to 29).

Issue or risk	Finding
<p><b>IFRS Restatement</b></p> <p>The 2009/10 financial statements need to be restated using the International Financial Reporting Standards (IFRS). Officers have agreed to deliver the re-stated accounts 1 February 2011.</p>	<p>The restated 2009/10 financial statements were delayed until the 7 April 2011 which has impacted upon the delivery of the audit.</p>
<p><b>Journals</b></p> <p>In 2009/10 we identified some journals not being subject to review enabling self authorisation.</p>	<p>Specific testing has been undertaken on these journals and no errors have been identified that I am required to bring to your attention.</p>

### Differences in the financial statements

**12** Under auditing standards I am required to bring to your attention any misstatements, including omissions or other errors in presentation or disclosure, other than those that are clearly trifling, identified during the course of my normal audit work for which no adjustment has been made in the financial statements. If I have identified any material misstatements which have been corrected by management I should also bring these to your attention in order to assist you in fulfilling your governance responsibilities. Trivial items have been set as errors below £6,000.

**13** As part of my audit I identified one material error in the draft financial statements and reported this to management. A journal had been processed incorrectly resulting in short term debtors and short term creditors being overstated by £2.5 million. This is detailed in appendix 2.

### Unadjusted differences in the financial statements

**14** Under auditing standards I am required to bring to the attention of the Audit Committee any misstatements, including omissions or other errors in presentation or disclosure, other than those that are clearly trifling, identified during the course of my normal audit work for which no adjustment has been made in the financial statements.

**15** There are no unadjusted audit differences that are material to the financial statements.

## **Important weaknesses in internal control**

**16** 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 my audit and required additional audit testing from that reported in my audit strategy in January 2011. These have impacted upon the audit fee for this year and may also require additional unplanned work in 2011/12. The Authority has agreed to address these weaknesses. The weaknesses I wish to bring to your attention are:

### ***Government's Actuary Department data***

**17** 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 proposed to be made.

**18** 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.

### ***Property, plant and equipment accounting system***

**19** I found that the accounting system in place in the year was an informal year end process. A complete fixed asset register was not available for my audit until 8 September 2011. The procedures in place could be improved by the use of an ongoing system and controls throughout the year. The authority has implemented an asset management module which is integrated with the general ledger. The use of such a module should facilitate the preparation of the fixed asset register and the accounting for all transactions relating to property, plant and equipment.

## **Quality of your financial statements and significant difficulties encountered during the audit**

**20** As part of my audit responsibilities I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

**21** The issues I want to raise with you are:

- presentation of the disclosures for accounting for pension costs, liabilities and firefighters pension fund grant; and
- difficulties during the audit.

## ***Accounting for pension costs, liabilities and firefighters pension fund grant***

**22** In accounting for pension costs statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the Local Government pension fund and the firefighters pension funds, and not the amount calculated according to the relevant accounting standards. This is a complex area. Whilst the Authority's approach this year is consistent with previous years it has become clear that although the associated accounting entries resulted in the correct charge to the comprehensive income and expenditure account, a correct balance sheet and firefighters pension fund the accounting entries used resulted in incorrect disclosure of the transactions within the financial statements.

**23** I have worked with the Authority's officers to ensure the financial statements are fully compliant. This has resulted in changes to the Movement in Reserves Statement, disclosures of pension costs, liabilities and pension fund grant but there has been no impact upon the surplus shown on the Comprehensive Income and Expenditure statement for the year.

### ***Difficulties during the audit***

**24** 2010/11 was the year in which new management arrangements in respect of the finance team were put place, including the appointment of an interim Treasurer and the Director of Finance and Assets taking on board additional responsibilities. This took capacity out of the finance team which it was believed could be accommodated. However, the complexities of the transition to IFRS have proved greater than envisaged and had a significant impact upon the quality of the financial statements presented for audit and the working papers to support them.

**25** As noted earlier the proposed restatement of the 2009/10 financial statements was delayed from February 2011 to April 2011. When we arrived on site in July 2011 to undertake the audit it became clear that a lack of comprehensive and detailed working papers and the overall quality of the new IFRS format accounts, combined with limited resources being available within the finance team to provide information and respond to audit requests for information, meant that the audit could not be completed within the planned three week period.

**26** It was agreed with the Authority that in order for the finance team to be able to address queries already raised, prepare a revised set of financial statements and to undertake further work improving existing working papers, together with the preparation of a complete fixed asset register, that we would suspend our audit. I wrote to the Chief Fire Officer and the Chair of the Audit Committee on the 21 July 2011 setting out my position.

**27** It was anticipated that improved information and access to finance staff would be available from 30 August 2011. A revised version of the accounts was available on this date and the audit recommenced. However, it was found that key working papers continued to lack clear audit trails and a complete fixed asset register was not available for the audit team to review until the 8 September 2011.

**28** The number of omitted disclosures required under IFRS and the number of incorrect disclosures has also been large and the audit has therefore progressed more slowly than anticipated. The unforeseen yet understandable absence of a key member of the finance team during this time has also had an impact.

**29** As a result of the issues highlighted above and those yet to be resolved the audit is taking longer than I had previously experienced and planned for when the fee was agreed. The additional time spent in order to complete the audit is significant and a supplementary audit fee will be required. My current estimate is that we have spent over 10% more time (equivalent to an additional fee of £7,000) on the audit than we had planned for. I will consider the full impact on the agreed audit fee on completion of the audit.

## Recommendation

**R1** The Authority should review the skills and capacity within the finance team against its roles and responsibilities in order to satisfy itself that appropriate arrangements are in place, specifically including the preparation and quality assurance of the financial statements.

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## Other matters

### *Delay in certification of completion of the audit*

**30** The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention during the course of my audit for the year ended March 2010 in relation to the early retirement of the outgoing Chief Fire Officer. I am satisfied that the matters outstanding for that audit do not have a material effect on the financial statements or a significant impact on my value for money conclusion for the year ended 31 March 2011.

### *Final accounts memorandum*

**31** I have issued a final accounts memorandum to management on minor issues identified during the audit, including:

- the authorisation of journals;
- the completeness of pensions data from the pension system;
- the implementation of a current IT strategy linked with the authority's finance strategy; and

- the service level agreement with Worcestershire County Council to include a specific requirement for the receipt of annual assurances from them to the authority on the operation and delivery of the payroll and pension systems.

### **Letter of representation**

**32** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

# Value for money

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

**33** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission.

**34** I intend to issue an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

Table 4: **Value for money criteria and our findings**

<b>Criterion</b>	<b>Findings</b>
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p><i>Focus for 2010/11:</i></p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p><i>Financial Governance</i></p> <p>There is capacity at senior level to provide strong leadership to the Authority.</p> <p>The authority has a sound understanding of the current financial environment and undertakes robust planning for the medium and long term.</p> <p>There is a strong link between the Authority Plan and Integrated Risk Management Plan.</p> <p><i>Financial Planning</i></p> <p>It has undertaken scenario planning around the level of grant funding and considered these within the authority's detailed medium term financial plan to ensure that reserves are sufficient to meet future expenditure.</p> <p><i>Financial control</i></p> <p>The authority historically closely monitors its expenditure and does not exceed budget levels. In 2010/11 the authority reported an underspend detailed in its financial statements enabling funds to be identified to support expenditure. The level of underspend does not indicate weaknesses in financial control.</p>

Criterion	Findings
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p><i>Focus for 2010/11:</i></p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p><i>Prioritising resources</i></p> <p>The senior team provide clear leadership on spending priorities and demonstrate a clear understanding of the resource requirements of the service.</p> <p>The Authority has adopted a strategic approach to identifying cost reductions and challenging spending and investment decisions. It makes decisions on prioritising its resources based on robust information. The service has challenged the existing delivery arrangements of its control room function and is moving forward with shared arrangements with Shropshire Fire and Rescue Service. Performance management is strong and appropriately challenged by the Policy and Resources Committee.</p> <p>The authority benchmarks its performance with other authorities to identify areas for improvement. There is a good track record of working in partnership within both Herefordshire and Worcestershire as well as with other Fire and Rescue Authorities.</p> <p><i>Improving efficiency and productivity</i></p> <p>The Authority understands its costs. It has a record of producing and using robust information to evaluate options and plans for savings. Efficiencies have been made and continue to be implemented.</p> <p>The cessation of the FiReControl project required a review of the way the function is delivered and how it will be delivered in future. The Authority has worked closely with Shropshire Fire and Rescue Service on procuring a command and control system paving the way for possible closer future collaboration.</p> <p>The sharing of stations with other emergency services has been actively considered to improve efficiency at reduced cost. Challenging targets are set and it is working with others to achieve its priorities.</p>

# Appendix 1 Draft independent auditor's report to Members of Hereford and Worcester Fire and Rescue Authority

## **Opinion on the Authority and Pension Fund accounting statements**

I have audited the accounting statements and the firefighters' pension fund accounting statements of Hereford and Worcester Fire and Rescue Authority for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statements, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the 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. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Hereford and Worcester 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

## **Respective responsibilities of the Treasurer and auditor**

As explained more fully in the Statement of the Treasurer's Responsibilities, the Treasurer is responsible for the preparation of the Authority's Statement of Accounts, including the firefighters' pension fund accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and the Pension Fund; and the overall presentation of the accounting

statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on accounting statements**

In my opinion the accounting statements:

- give a true and fair view of the state of Hereford and Worcester Fire and Rescue Authority's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the financial transactions of the firefighters' pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

### **Matters on which I report by exception**

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

### **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### *Authority's responsibilities*

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 review regularly the adequacy and effectiveness of these arrangements.

#### *Auditor's responsibilities*

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

#### *Basis of conclusion*

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

#### *Conclusion*

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Hereford and Worcester Fire and Rescue Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

#### *Delay in certification of completion of the audit*

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention during the course of my audit for the year ended March 2010 in relation to the early retirement of the outgoing Chief Fire Officer. I am satisfied that the matters outstanding for that audit do not have a material effect on the financial statements or a significant impact on my value for money conclusion for the year ended 31 March 2011.

**Grant Patterson**  
Officer of the Audit Commission  
Audit Commission

Opus House  
Priestley Court  
Stafford Technology Park  
Beaconside  
Stafford ST18 0LQ

23 September 2011

## Appendix 2 Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities.

Table 5:

Adjusted mis-statement	Comprehensive income and expenditure statement		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Journal misposting: Short term debtors/short term creditors. At the year end the Pension fund has a creditor to the Authority of £2.4 million. In the initial posting of this creditor a debtor was posted in error.			2,541	2,541

## Appendix 3 Draft letter of representation

To:  
Grant Patterson  
Officer of the Audit Commission  
Opus House  
Priestley Court  
Stafford Technology Park  
Beaconside  
Stafford  
ST18 0LQ

### **Hereford and Worcester Fire and Rescue Authority - Audit for the year ended 31 March 2011**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Hereford and Worcester Fire and 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 2011. All representations cover the Authority's accounts and Pension Fund accounts included within the financial statements.

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

I have fulfilled 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 which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

#### **Supporting records**

All relevant information and access to persons within the entity has 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 financial statements.

#### **Irregularities**

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

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;
- 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; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

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

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

### **Related party transactions**

I confirm that I have disclosed the identity of Hereford and Worcester Fire and Rescue Authority related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

### **Subsequent events**

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Hereford and Worcester Fire and Rescue Authority

I confirm that the this letter has been discussed and agreed by the Authority  
on [date]

Signed

Name

Position

Date

## Appendix 4 Glossary

### **Annual governance statement**

A statement of internal control prepared by an audited body and published with the financial statements.

### **Audit closure certificate**

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 financial statements.

### **Audit opinion**

On completion of the audit of the financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

### **Opinion**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

### **Materiality (and significance)**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

### **Weaknesses in internal control**

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

### **Value for money conclusion**

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 based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

## Appendix 5 Action plan

### Recommendation

#### Recommendation 1

The Authority should review the skills and capacity within the finance team against its roles and responsibilities in order to satisfy itself that appropriate arrangements are in place, specifically including the preparation and quality assurance of the financial statements.

<b>Responsibility</b>	Treasurer
<b>Priority</b>	High
<b>Date</b>	October 2011
<b>Comments</b>	

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