

# Annual Governance Report

Tyne and Wear Fire and Rescue Authority

Audit 2008/09

September 2009

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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

**2008/09 Annual Governance Report**

I am pleased to present my report on the results of my audit work for 2008/09.

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, and to approve the letter of representation on behalf of the Authority before I issue my opinion and conclusion.

Yours faithfully

Steve Nicklin  
District Auditor  
17 September 2009

# Key messages

This report summarises the findings from the 2008/09 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 how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

<b>Financial statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	4
Financial statements free from error	Yes	4
Adequate internal control environment	Yes	4
<b>Use of resources</b>	<b>Results</b>	<b>Page</b>
Adequate arrangements to secure value for money	Yes	6

## Audit opinion

- 1 Subject to satisfactory clearance of some minor outstanding matters, we expect to issue an unqualified audit opinion on the Authority's financial statements for the 2008/09 financial year.

## Financial statements

- 2 Management has agreed to make adjustments to disclose the long term investment in North East Fire Control Company Limited on the Balance Sheet. This is largely cosmetic in 2008/09 but will become more important in future years when the regional control centre is operational and the company has a measurable financial value.

## Value for money

- 3 We intend to issue an unqualified Value for Money conclusion.

# 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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**4** I ask the Governance Committee to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements which are set out in this report;
- take note of my value for money conclusion;
- provide specific assurances as requested, to explain how the Committee discharges its role as Those Charged with Governance; and
- approve the letter of representation on behalf of the Authority before I issue my opinion and conclusion.

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# Financial statements

**The financial statements are an important means by which the Authority accounts for its stewardship of public funds. As elected members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.**

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## Opinion on the financial statements

- 5 The Authority's 2008/09 financial statements and supporting working papers were prepared to a very high standard. The only area of the audit where we are yet to complete our work relates to confirmations from DWP in respect of pension injury payments.
- 6 Subject to satisfactory clearance of this outstanding matter, 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.
- 7 Management has agreed to make adjustments to disclose the long term investment in the North East Fire Control Company Limited on the Balance Sheet. This is largely cosmetic in 2008/09 but will become more important in future years when the regional control centre is operational and the company has a measurable financial value.
- 8 Officers also agreed to make a number of minor presentational changes to the accounts. These changes are exclusively presentational and do not have an impact on the Authority's underlying financial position or financial performance as previously reported in the financial statements.

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## Letter of representation and specific assurances from management and those charged with governance

- 9 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. Appendix 2 contains the draft letter of representation I seek to obtain from you.
- 10 In order to comply with International Standard on Auditing (UK&I)240 we are required to obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control. A second International Standard on Auditing (ISA(UK&I)250) requires that auditors also understand how those charged with governance gain assurance that all relevant laws and regulations have been complied with.
- 11 I should therefore be grateful if you would confirm to us how the Governance Committee oversees management processes to identify and respond to such risks, and whether the Committee has knowledge of any actual, suspected or alleged frauds

## Financial statements

or failure to comply with laws and regulations. A brief response by letter (or email), by 29 September 2009 will suffice.

- 12** In order to comply with a number of International Standards on Auditing (ISA (UK&I) 240, 250 and 501) we are also required to obtain an understanding from management of their processes with regard to fraud and internal control, laws and regulations and potential for litigation and claims affecting the financial statements. We have requested that the Chief Fire Officer and Finance Officer provide us with a brief statement confirming the processes in place by 29 September 2009.

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### Key areas of judgement and audit risk

- 13** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out below.

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

<b>Key area of judgement or audit risk</b>	<b>Finding</b>
There has been a significant impairment of fixed assets	Audit work confirmed that impairments have been calculated in accordance with relevant guidance and that they are accurately reflected in the Authority's accounts.
The Authority has a large PFI scheme covering the brigade HQ, training centre and almost half of its operational fire stations. Although the accounting treatment is well established, entries are complex; and there is an inherent risk that the accounts may be materially mis-stated	The accounting treatment for the PFI schemes has been reviewed and confirmed as correct.
The Authority has significant pensions liabilities and belongs to 2 separate funds, the national firefighter scheme and LGPS for other employees. This raises a number of complex accounting and actuarial issues, including the issues of (1) commutation and (2) pension injury payments in relation to the national scheme.	In addition to mandatory testing to ensure SORP and FRS17 compliance we have reviewed the accounting treatment of commutation adjustments, and undertaken sample testing on pension injury payments. There were no matters arising from our work.
BVACOP requires fire authorities to distinguish between costs relating to emergency firefighting and those relating to community safety and other preventative work. However firefighters do	We have reviewed the basis of the accounting policy for cost allocation and the reason for the change. Our testing confirms that the policy described in the accounts is appropriate and has been

<p>not complete detailed timesheets – we are aware that the basis for allocating revenue costs has changed this year</p>	<p>applied as stated.</p>
<p>Group Accounts - there is a risk that these may need to be prepared in accordance with SORP guidance</p>	<p>We reviewed evidence provided to confirm that Group Accounts were not required for 2008/09, although they may well be for future years. We also confirmed that all related entities have been identified and appropriately disclosed.</p>



# Use of resources

I am required to consider how well the Authority is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

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

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## Use of resources judgements

- 14 In forming my scored use of resources judgements, I use the methodology set out in the [use of resources framework](#). Judgements are made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2. In forming these judgements I take into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
  - 15 The Authority's use of resources scores are under embargo as the Audit Commission's national quality assurance and review process is still under way. Once this process has been completed I intend to issue a separate report detailing my findings, conclusions and recommendations. This will be discussed with officers and then presented to members.
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## Value for Money conclusion

- 16 I assess your arrangements to secure economy, efficiency and effectiveness in the use of resources against criteria specified by the Audit Commission. From 2008/09, the criteria have been aligned to use of resources judgements and the Audit Commission will specify each year which of the use of resources KLOEs are the relevant criteria at each type of audited body. My conclusions on each criteria are set out in Appendix 3 below.
- 17 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.

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

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## Opinion on the financial statements

I have audited the accounting statements, the firefighters’ pension fund accounting statements and related notes of Tyne and Wear Fire and Rescue Authority for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement, and the related notes. The firefighters’ pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial statements and firefighters’ pension fund accounting statements have been prepared under the accounting policies set out within them.

This report is made solely to the members of Tyne and Wear 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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## *Respective responsibilities of the Chief Finance Officer and auditor*

The Chief Finance Officer’s responsibilities for preparing the financial statements, including the firefighters’ pension fund accounting statements, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements, the firefighters’ pension fund accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial transactions of its firefighters’ pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an

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

opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, the firefighters’ pension fund accounting statements and related notes and consider whether it is consistent with the audited accounting statements, the firefighters’ pension fund accounting statements and related notes. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements, the firefighters’ pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

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### ***Basis of audit opinion***

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements, the firefighters’ pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements, the firefighters’ pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements, the firefighters’ pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements, the firefighters’ pension fund accounting statements and related notes.

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### ***Opinion***

In my opinion:

- The accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- The firefighters’ pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the firefighters’ pension fund during the year ended 31 March 2009 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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## **Conclusion on 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 regularly to review the adequacy and effectiveness of these arrangements.

### **Auditor’s Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for fire and rescue authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for fire and rescue authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Tyne and Wear Fire and Rescue Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

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### **Certificate**

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

Steve Nicklin

District Auditor

Nickalls House, Metro Centre, Gateshead NE11 9NH

September 2009

# Appendix 2 – Draft letter of representation

To:  
Steve Nicklin  
Engagement Lead  
The Audit Commission  
Nickalls House, Metro Centre, Gateshead NE11 9NH

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## Tyne and Wear Fire and Rescue Authority - Audit for the year ended 31 March 2009

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Tyne and Wear 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 2009.

I acknowledge my responsibility under the relevant statutory authorities for preparing financial statements which present fairly the financial position, and for making accurate representations to you.

I confirm that Tyne and Wear Fire and Rescue Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements, other than those already disclosed to you.

### Specific representations

I confirm that:

- there are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those referred to above, which have been properly recorded and disclosed in the financial statements.
- the cost of services provided by Sunderland City Council, and the value of loans, cash balances and investments administered by the Council on Tyne and Wear Fire and Rescue Authority's behalf, have been correctly calculated and included in the Authority's financial statements
- no disclosures or adjustments are required in respect of financial instruments.

### 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.

### Group entities

I am satisfied that there is no requirement to prepare group accounts.

### Related party transactions

I confirm the completeness of the information provided 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.

### 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;
- there were no known liabilities in respect of capital commitments as at 31 March 2009;
- all known liabilities and commitments in respect of NEFCC limited and the regional control centre have been included in the accounts; and
- no financial guarantees have been given to third parties.

### 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 body 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.

### Assets

The following have been properly recorded and when 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.

## Appendix 2 – Draft letter of representation

### Irregularities

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

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; 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.

### Post balance sheet events

Since the date of approval of the financial statements by the Governance Committee on 29 June 2009, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete stock and no stock is stated at an amount in excess of net realisable value.

### Compensating arrangements

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

Signed on behalf of Tyne and Wear Fire and Rescue Authority

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# Appendix 3 – Value for money conclusion

The following tables summarise the key findings and conclusions for each of the Audit Commission criteria.



## Appendix 3 – Value for money criteria

Code Criteria	Description	Met
1	Does the organisation: <ul style="list-style-type: none"> <li>• integrate financial planning with strategic and service planning processes on a medium- to long-term basis;</li> <li>• engage local communities and other stakeholders in the financial planning process;</li> <li>• manage spending within available resources and is financially sound over the medium term; and</li> <li>• recognise individual and collective responsibilities for financial management and values and develops financial skills.</li> </ul>	Yes
2	Does the organisation: <ul style="list-style-type: none"> <li>• understand its costs, including whole life, transaction and unit costs, the main factors that influence these and how they link to performance;</li> <li>• take account of this understanding of its costs and performance in decision making and commissioning; and</li> <li>• identify the scope for making efficiencies and is on track to achieve planned efficiencies.</li> </ul>	Yes
3	Does the organisation: <ul style="list-style-type: none"> <li>• produce relevant, timely and reliable financial monitoring and forecasting</li> </ul>	Yes

Code Criteria	Description	Met
	<p>information;</p> <ul style="list-style-type: none"> <li>• use financial and related performance information to monitor performance during the year;</li> <li>• produce financial reports that are clear, relevant and concise to support strategic decision making;</li> <li>• prepare accounts that meet statutory requirements, financial reporting standards and present fairly, or give a true and fair view of, the financial performance and position; and</li> <li>• publish reports that provide an objective, balanced and understandable assessment of the organisation’s performance in the year.</li> </ul>	
4	<p>Does the organisation</p> <ul style="list-style-type: none"> <li>• have a clear vision of intended outcomes for local people which shapes its commissioning and procurement, and is based on an ongoing analysis and understanding of needs; <ul style="list-style-type: none"> <li>• involve local people, partners, staff and suppliers in commissioning services;</li> <li>• seek to improve the customer experience, quality and value for money of services through service redesign, making effective use of IT;</li> </ul> </li> <li>• understand the supply market and seeks to influence and develop that market; <ul style="list-style-type: none"> <li>• evaluate different options (internal, external and jointly with partners) for procuring services and supplies; and</li> </ul> </li> </ul>	Yes

### Appendix 3 – Value for money conclusion

Code Criteria	Description	Met
	<ul style="list-style-type: none"> <li>review the competitiveness of services and achieves value for money, while meeting wider social, economic and environmental objectives.</li> </ul>	
5	<p>Does the organisation:</p> <ul style="list-style-type: none"> <li>produce relevant and reliable data and works with partners to ensure the quality of partnership data;</li> <li>understand the needs of its decision makers and provides them with information that is fit for purpose and is used to support decision making;</li> <li>ensure data security and compliance with relevant statutory requirements; and</li> <li>monitor performance against its priorities and targets, and addresses underperformance.</li> </ul>	Yes
6	<p>Does the organisation:</p> <ul style="list-style-type: none"> <li>adopt, promote and demonstrate, the principles of good governance;</li> <li>maintain focus on its purpose and vision;</li> <li>demonstrate a strong ethical framework and culture; and</li> <li>apply the principles and values of good governance to its partnership working.</li> </ul>	Yes
7	<p>Does the organisation:</p> <ul style="list-style-type: none"> <li>have effective risk management which covers partnership working;</li> </ul>	Yes

Code Criteria	Description	Met
	<ul style="list-style-type: none"> <li>• have a clear strategy and effective arrangements, including allocation of appropriate resources, to manage the risk of fraud and corruption; and</li> <li>• have a sound system of internal control including internal audit.</li> </ul>	
9	<p>Does the organisation:</p> <ul style="list-style-type: none"> <li>• have a productive and skilled workforce;</li> <li>• know in the medium to longer term what staff it will need, with what skills, and has plans to achieve this;</li> <li>• engage and supports staff in organisational change; and</li> <li>• have policies which support diversity and good people management.</li> </ul>	Yes

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# The Audit Commission

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The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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## Appendix 3 – Value for money conclusion