

Annual governance report

Tyne and Wear Fire and Rescue Authority

Audit 2010/11



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Key messages

This report summarises the findings from the 2010/11 audit which is now 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.

Unqualified audit opinion	✓
Proper arrangements to secure value for money	✓

Audit opinion and financial statements

I intend to issue an unqualified opinion on the Authority's 2010/11 financial statements. I identified a small number of errors during the audit and most of these were corrected. I am satisfied that the errors which remain uncorrected are not material and do not have a significant impact on the Authority's financial position as previously reported to you.

Value for Money Conclusion

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. This is known as the value for money conclusion. I intend to issue an unqualified conclusion stating that in 2010-11 the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources.

Before I complete my audit

I confirm to you

My report 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.

Independence

I confirm that I have complied with the Auditing Practices 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.

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

I ask you to confirm to me

I ask the Governance committee to:

- take note of the adjustments to the financial statements which are set out in this report , together with the errors identified during our audit where management have agreed not to adjust;
 - provide written assurances to me confirming how you have discharged your role as “those charged with governance” during 2010/11; and
 - approve management’s letter of representation, provided alongside this report, on behalf of the Authority before I issue my opinion and conclusion.
-

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.

My 2010/11 audit work is now substantially complete and I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

Errors in the financial statements

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

- Past service pension gains totalling £74.28m were initially treated as non-distributed costs in accordance with CIPFA guidance. Further guidance was issued subsequent to preparation of the financial statements, as a result this item is now shown as an exceptional item in the Comprehensive Income and Expenditure Statement
- Additional disclosures have been agreed in relation to financial instruments, officers' remuneration and non-cash adjustments to the Cash Flow Statement, and to reflect decisions made during 2010/11 to wind up the Emergency Planning Unit and the North East Fire Control Company (NEFCCL)
- Re-analysis of £0.8m short term creditors between "central government bodies" and "other entities and individuals" and £0.7m between "other local authorities" and "public corporations and trading funds" within note 18
- The Authority's investment in NEFCCL is to be shown on the face of the balance sheet at £Nil, cross referenced to an additional disclosure note.

Unadjusted errors

I also identified minor misstatements in relation to operating lease prepayments, audit fee disclosures and analysis of receipts in advance between short and long term. The aggregate value of these misstatements is under £30,000 in total and management has decided not to adjust, as set out in their Letter of Representation which accompanies my report. I am satisfied that these errors do not have a significant impact on the Authority's financial position as previously reported to you.

Key risks and audit findings

In planning my audit I identified specific risks and areas of judgement. These are set out below together with our audit findings and conclusions.

Key audit risk and our findings

Key audit risk	Finding
<p>The Authority is required to comply with IFRIC12 requirements, and include the assets and associated liabilities of PFI schemes in its financial statements.</p> <p>Phase 1 PFI was brought on balance sheet last year and Phase 2 (Tynemouth Fire Station) a joint PFI scheme, has been included in the accounts for the first time in 2010/11.</p>	<p>We have confirmed that PFI Phase 2 assets and liabilities have been brought on balance sheet correctly. We have also confirmed that all accounting entries in respect of PFI schemes meet IFRIC12 and Code requirements, and are consistent with information contained in operators' models. We have also confirmed the accounting treatment of PFI grant income.</p>
<p>The Authority holds investments in a limited company (NEFCCL), and had involvement in the RMB during 2010/11. These interests need to be accounted for in accordance with IFRS and Code requirements.</p>	<p>Additional disclosures have been made to the accounts to reflect the Authority's interests in these other entities, and the decisions to wind up both the RMB and NEFCCL during the year.</p>
<p>The most significant and complex assertions in the accounts relate to property, plant and equipment (fixed assets) and to pensions obligations. Specific risks were identified in relation to:</p> <ul style="list-style-type: none">• New Dimension assets transferred to the Authority from DCLG• Pensions changes relating to past service gains and fire injury awards	<p>We have undertaken undertake appropriate testing to confirm that these assets and liabilities have been correctly valued and accounted for.. Adjustments to the accounts have been agreed to treat the past service gain on pensions (arising from indexation changes) as an exceptional item in 2010/11.</p>
<p>Sunderland City Council provides support services to the Authority and undertakes treasury management on your behalf. This represents a service organisation arrangement therefore specific auditing requirements apply.</p>	<p>We have planned and carried our work in order to meet ISA(UK&I) 402 requirements, and we have sought specific representations from management in respect of these arrangements.</p>
<p>The Authority was required to implement IFRS requirements in full for the first time in 2010/11. Key changes related to:</p> <ul style="list-style-type: none">■ presentation and disclosure■ PPE (fixed asset) valuation and accounting■ lease arrangements■ leave and holiday pay accruals.	<p>We are satisfied that the Authority's accounts meet IFRS and Code requirements in all significant respects, and that opening balances have been restated as required.</p>

Other reporting issues

As part of my audit I am required to consider whether I am aware of any significant weaknesses in internal control that need to be brought to your attention. I also consider qualitative aspects of your accounting practices and accounting policies, the use of accounting estimates and financial statements disclosures. There are no matters in relation to these aspects of the audit that I need to bring to your attention.

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.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. I intend to issue an unqualified conclusion stating that the Authority had proper arrangements to secure economy, efficiency and effectiveness in your use of resources. Appendix 1 contains a draft of my report.

My conclusion on each of the two areas is set out below.

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</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</p>	<p>Medium term financial planning is well established and linked to the Authority's annual review of its strategic objectives and Integrated Risk Management Plan. The medium term financial plan covers the next 3-4 years and is based on:</p> <ul style="list-style-type: none">■ detailed risk assessments■ analysis of demographic trends■ realistic assumptions about funding levels, pay and prices■ financial modeling, option appraisal and cost/benefit analysis as necessary to support key decisions■ working balances maintained at 5% of spending. <p>Elected and co-opted members provide appropriate and informed challenge on financial matters at both Governance and Full Committee meetings</p> <p>Senior officers and members have received detailed reports and briefings on the potential impact of funding reductions following the Spending Review. There has been extensive consultation with staff, the business</p>

Criterion	Findings
<p>continue to operate for the foreseeable future.</p>	<p>community, local people, trade unions and partners to determine how these can best be tackled and to establish clear priorities for the future.</p> <p>The Authority is well placed in terms of working balances and reserves, with a good track record of delivering to budget in recent years. It has also been successful in meeting other key financial targets such as:</p> <ul style="list-style-type: none"> ■ complying with statutory financial requirements and prudential indicators ■ delivering the approved Treasury Management strategy, which is regularly reviewed and kept up to date ■ operating within agreed cash limits
<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>Focus for 2010/11: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Authority has the 6th highest expenditure per head of all fire authorities nationally and most of this money is directed towards front line activities. Back office and management costs as a % of the total budget are low and there is significant investment in community safety activities and partnership work.</p> <p>The Authority has delivered efficiency savings in excess of government targets in recent years, through an ongoing programme of service reviews. Financial savings in 2010/11 have been secured through:</p> <ul style="list-style-type: none"> ■ restructuring the community safety function ■ disbanding the Emergency Planning Unit ■ implementing a low activity staffing model at less busy fire stations <p>A back office service review is also well underway with implementation continuing into 2011-12</p> <p>Successful partnership working is well established and yields efficiencies, for example :</p> <ul style="list-style-type: none"> ■ Cross border joint working now in place with Northumberland Fire and Rescue Service ■ Most back office services provided by Sunderland City Council ■ Joint selection and recruitment process ■ Training offered to other fire authorities and 3rd parties ■ 2 successful PFI schemes are in place, one is a joint scheme with a neighbouring fire authority.

Criterion

Findings

Good governance arrangements are in place for partnership working, these include a regular appraisal of the costs and benefits of individual arrangements.

At a more operational level, lower cost options have been considered and approved in relation to “Safetyworks” and vehicle replacement. An efficiency log in each department gives all staff the opportunity to highlight potential savings. The Authority participates in benchmarking clubs and carries out detailed comparisons of costs, activity levels and performance.

2010/11 year end performance report confirms that :

- all key improvement plans have been delivered.
 - 50% of key performance indicators have met their target, and 91% of these show improvement when compared to the prior year
 - performance is now above metropolitan fire service average or better in all areas except the incidence of deliberate fires
 - all feedback from external accreditation, agencies, and peer review in 2010/11 has been positive.
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Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TYNE AND WEAR 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 Tyne and Wear 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 Statement, 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 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer 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 Practice's 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 Tyne and Wear 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, Tyne and Wear 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.

Certificate

I certify that I have completed the audit of the accounts, including the firefighters' pension fund accounting statements, of Tyne and Wear Fire and Rescue Authority 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

Audit Practice, Audit Commission

Nickalls House, MetroCentre, Gateshead, NE11 9NH

September 2011

Appendix 2 – 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 [where there is no regularity leg]

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.

[Where there is a regularity leg]

- I find that some spending or income was irregular.

Materiality and significance

The Auditing Practices Board (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.

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

