

Annual Governance Report

Tyne and Wear Fire and Rescue Authority

Audit 2007/08

September 2008

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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.

Summary

Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is now substantially complete. Only two matters now remain outstanding:
 - We have not yet received a letters of assurance in respect of the firefighters' pension fund, as required by Audit Commission protocols
 - The Authority has not yet completed follow up work, undertaken at our request, to confirm pensions injury payments to firefighters.
- 2 This report identifies the key issues to consider before we issue our opinion, conclusion and certificate. It includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

Financial statements

- 3 We expect to issue an unqualified opinion on the financial statements. Arrangements for producing the financial statements were very good and only the following amendments are proposed as a result of our work:
 - Reclassification of reduction in past pension costs as an actuarial gain rather than revenue income, to comply with guidance received after the accounts were prepared
 - Narrative amendments to disclosure notes 11 and 30.
- 4 None of these adjustments have any impact on the financial position of the Authority as previously reported to you.

Value for Money

- 5 We are proposing to issue an unqualified value for money conclusion for the Fire Authority in 2007/08.

Formal audit powers

- 6 We have not, and do not propose to, use any of our formal audit powers in relation to the 2007/08 audit.

Next steps

- 7 The Authority is required to:
 - consider the matters raised in the report before approving the financial statements;
 - agree to adjust the financial statements as set out in our recommendations;
 - approve the representation letter on behalf of those charged with governance before we issue our opinion, conclusion and certificate.

Financial statements and Annual Governance Statement

- 8 The financial statements and Annual Governance Statement are important components of governance, internal control and financial management. As those charged with governance, you have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 9 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 10 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
 - our views about accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 11 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Pension obligations. The FRA has pension obligations in respect of both LGPS employees and firefighters, who now belong to a national scheme. These liabilities represent the most significant assertions in the accounts.	The accounts require amendment because guidance on the treatment of adjustments to past pension costs was received after the accounts had been prepared. We have also requested a narrative amendment to note 30 to confirm that pensions commutations have been properly accrued for. In all other respects we are satisfied that SORP, DCLG and FRS17 requirements have been complied with and that assertions are consistent with actuarial advice.
Fixed assets. Significant impairments and revaluations have been recognised this year. There are also new SORP requirements in 2007/8.	No errors identified.
Debtors and Creditors - these assertions have the most significant impact on revenue outturn.	No errors identified.

Financial statements and Annual Governance Statement

Investment balances and income have increased in line with accumulated reserves and there are new accounting requirements this year in respect of financial instruments.	No errors identified.
Reserves and provisions - TWFR has a large number of earmarked reserves.	We have confirmed that these comply with FRS 12 and have been approved by members.
Revenue Account Costs in 2007/8 are less than budget and our initial review has highlighted variances in community safety costs and NDC income. Allocation of costs between community safety and firefighting work is based on estimates.	The only issue arising relates to past pension costs, as set out above.

Draft representation letter

12 Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:

- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
- you have approved the financial statements;
- you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
- you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
- you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
- you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
- you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures;
- you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
- you are satisfied that all of the errors identified during the course of the audit have been corrected, other than those which are of a trivial nature.

13 The letter covers areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities. We also need specific representations from you as follows:

- about shared costs, loans and investments because these services are provided by Sunderland City Council
- to confirm that reporting requirements in respect of group accounts and financial instruments do not apply
- to confirm that there were no significant capital commitments at the year end
- to confirm that the allocation of costs between community safety and responsive firefighting and rescue work is appropriate
- to confirm that , so far as you are aware, no overpayments have been made in respect of firefighter pensions and injury payments.

14 Appendix 1 contains the draft of the letter of representation we seek from you.

Accounting policies and financial reporting

15 We considered the qualitative aspects of your financial reporting and have not identified any significant issues to raise with you.

Errors and uncertainties

16 We identified no errors in the financial statements other than those reported above. However the Authority has agreed to include additional disclosures in note 11 to the accounts, to explain:

- Progress to date on the regional control centre project (RCC)
- The establishment of a local authority controlled company (LACC), which is currently dormant but will be used to account for the running costs of the RCC when it becomes operational next year.

17 It has been highlighted nationally that some fire authorities are making overpayments in respect of injury pensions to firefighters. Officers are currently undertaking work to ascertain whether or not this is the case at Tyne and Wear FRA. No such payments have been identified to date, which indicates that the value of any such overpayments, if made, would not be material. However the exercise is not complete and therefore we have sought specific representations from management in this respect.

Material weaknesses in internal control

18 We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

19 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

Financial statements and Annual Governance Statement

Other matters

20 There are no other matters that auditing standards require me to report to you.

The audit report

21 Management have agreed to make appropriate adjustments to the accounts as follows:

Recommendation	
R1	Reclassify £8.16m reduction in past pension costs as an actuarial gain rather than revenue income.
R2	Amend disclosure note 30 to clarify that pensions commutations have been properly accrued for.
R3	Expand disclosure note 11 to explain the current position on the regional control centre project and establishment of LACC.

22 We therefore plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 2 contains a copy of our draft report.

Value for money

- 23** We are required to conclude on whether the Authority has put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against criteria specified by the Commission.
- 24** We have assessed your arrangements as adequate or better in all the relevant areas and we therefore propose to issue an unqualified conclusion. Our annual audit letter for members, which is due to be published later in the year, will include the outcomes from:
- Performance work on equality and diversity
 - Our annual Direction of Travel and Use of Resources assessment
 - Other detailed recommendations to help support improvement.

Formal audit powers

25 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Authority to meet and consider the notice before:
 - making a decision that might give rise to unlawful expenditure; or
 - taking an unlawful course of action that would give rise to a loss; or
 - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision made by the Authority.

26 We have not and do not propose to exercise these powers.

Independence

- 27** The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 28** We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 29** We communicate to you:
- any relationships between ourselves and the Authority, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
 - total fees charged to you for audit and non-audit services; and
 - our arrangements to ensure independence and objectivity.

Relationships with the Authority

- 30** We have identified no relationships that might affect objectivity and independence.

Audit fees

- 31** We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

Table 2 Audit fees

	Plan 2007/08	Actual 2007/08
Opinion audit	£37,700	£37,700
Use of Resources, data quality and value for money conclusion	£28,800	£28,800
Total audit fee	£66,500	£66,500
Other work	0	0

- 32** The analysis above shows that we contained our audit fee within the totals you have already agreed.
- 33** Under the Audit Commission's advice and assistance power it may provide non-audit services. No such services have been provided to the Authority during 2007/08.

Our arrangements to ensure independence and objectivity

- 34** We have comprehensive procedures to ensure independence and objectivity. These are outlined below.

Table 3 Arrangements to ensure independence and objectivity

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> • do not hold a financial interest in any of our audit clients; • may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and • may not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> • the general requirement to carry out work independently and objectively; • safeguarding against potential conflicts of interest; • acceptance of additional (non-audit) work; • rotation of key staff; • other links with audited bodies; • secondments; • membership of audited bodies; • employment by audited bodies; • political activity; and • gifts and hospitality.
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

Appendix 1 - Draft letter of representation

Tyne and Wear Fire and Rescue Authority - Audit for the year ended 31 March 2008

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers and members 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 2008.

Compliance with the statutory authorities

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

Misstatements in the accounts

I confirm that the accounts have been amended as follows:

- To reclassify £8.16m reduction in past pension costs as an actuarial gain rather than revenue income.
- To include additional narrative in notes 11 and 30.

There are no identified errors in the financial statements which remain uncorrected.

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 committee meetings, have been made available to you.

Going Concern

I am satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements.

Irregularities

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

There have been no:

Independence

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

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

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.

So far as I am aware, the Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements for pensions disclosures under FRS17 and national arrangements for firefighter pensions. I am satisfied that no significant disclosures are required in respect of financial instruments.

Group entities

I am satisfied that the requirement for group accounting does not apply in respect of transactions during 2007/08 in respect of the regional management board or the regional control centre initiative.

Assets

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

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

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts and we have no other lines of credit arrangements.

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, including capital commitments, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

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

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

Post balance sheet events

Since the date of approval of the financial statements, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements, other than those already disclosed.

Specific representations:

The following have been properly reflected in the financial statements:

- The cost of services provided to the Authority by Sunderland City Council
- The value of cash balances, loans and investments relating to the Authority which are administered by Sunderland City Council on its behalf

I am satisfied that the allocation of revenue costs between community fire safety and firefighting/rescue operations in the income and expenditure accounts is reasonably based.

I am not aware of any overpayments which have been made in respect of firefighter pensions or injury payments.

Signed on behalf of Tyne and Wear Fire and Rescue Authority

I confirm that the this letter has been discussed and agreed by the Governance Committee on 22 September 2008

Signed

Name and Position

Date

Appendix 2 - Draft audit opinion and certificate

Independent auditor's report to the Members of Tyne and Wear Fire and Rescue Authority

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 2008 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, 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 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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 Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 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 Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- 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 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 and the Annual Report. 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.

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.

Opinion

In my opinion:

- The accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and

Independence

- 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 2008 and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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.

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 December 2006, 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 2008.

Best Value Performance Plan

I have issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on 19 December 2007. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

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, Metrocentre, Gateshead NE11 9NH

September 2008
