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Tyne & Wear Fire and Rescue Authority
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Dear Members of the Governance Committee

Update to our Audit Completion Report, 2016/17 Audit

I am writing to update matters included within our Audit Completion Report issued on 21 July 2017 and included on the agenda of the Governance Committee for 31 July 2017.

In view of the tight deadlines this year, our work continued beyond the point at which the Audit Completion Report was issued and a number of additional points have arisen. I have therefore attached to this letter an updated Appendix A to our Audit Completion Report. The items highlighted in red are the changes since our initial report was issued.

There are now some unadjusted misstatements. None of the additional changes impact on our overall audit conclusions.

In addition, Appendix B included a letter of representation. I have attached a revised Appendix B to this letter with an updated version of the letter of representation we require, which now includes a representation in relation to the unadjusted misstatements, which is also highlighted in red. It is this revised version that we now ask to be signed by the Finance Officer.

I would be grateful if this letter could be added as an Addendum to our report in the official agenda papers of the Governance Committee of 31 July 2017 on the Authority's website.

Yours sincerely



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Appendix A – Summary of misstatements

The misstatements identified for adjustment during the course of the audit that are above the trivial level of £22k, are set out below.

The table below outlines the identified misstatements which management has assessed as not being material, either individually or in aggregate to the financial statements, and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2016/17					
		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Capital adjustment account	388			
	Cr: PFI lease liability				388
	Explanation: To correct a historic anomaly in the treatment of PFI lifecycle maintenance costs on the NEFRA PFI scheme. Management's view is that the error is not material and a correction will be made in the 2017/18 financial statements. Consequently, the 2016/17 financial statements are not to be amended for this error.				
2	Dr: Capital adjustment account	31			
	Cr: PFI lease liability				31
	Explanation: To correct a historic imbalance between the NEFRA PFI model and the PFI lease liability, after taking account of item (1) above. Management's view is that the error is not material and a correction will be made in the 2017/18 financial statements. Consequently, the 2016/17 financial statements are not to be amended for this error.				

Adjusted misstatements 2016/17

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
	Dr: Gross Expenditure - Management and Support Services	1,891			
	Cr: Taxation and Non-Specific Grant Income – Fire Capital Grant		1,891		
1	<p>Explanation: Fire capital grant was originally offset against Management and Support Services Costs rather than shown as Taxation and Non-Specific Grant Income. This does not impact on the bottom line of the CIES.</p> <p>Note – there is also a prior period adjustment for the corresponding figures in the 2015/16 accounts – see item 4 in this adjustments table.</p>				
	Dr: Gross Income – Community Safety	98			
	Dr: Gross Income – Fire Fighting and Rescue Operations	574			
2	Cr: Gross Income - Exceptional Items: Rates Refund		672		
	<p>Explanation: A business rates refund was initially credited to service lines, but was subsequently shown as an Exceptional Item of Gross Income given its value. This does not impact on the bottom line of the CIES.</p>				

Adjusted misstatements 2016/17 (continued)

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
Dr: Long Term Debtors			55	
Dr: Long Term Assets – Investments			20	
Cr: Gross Expenditure - Management and Support Services		75		
Dr: General Fund Balance			75	
3 Cr: Earmarked Revenue Reserves – Development Reserve				75
<p>Explanation: Loans made in the year of £55k to Impeller Assurance and Resilience Ltd (via TWFRS Ltd) were initially treated as revenue expenditure. Similarly, the purchase of share capital of £20k in TWFRS Ltd was also initially treated as revenue expenditure. These amounts have now been correctly reflected on the Balance Sheet, with the £55k loan shown as a Long Term Debtor that will be repaid in future, and the £20k shown as a Long Term Investment. This did impact on the bottom line of the CIES showing a reduced Deficit on the Provision of Services of £75k. This initially increased the General Fund Balance by £75k. However, the £75k was subsequently transferred to the Development Reserve through the Movement in Reserves Statement (MIRS).</p> <p>Note – there is also a prior period adjustment for the corresponding figure in relation to loans in the 2015/16 accounts – see item 5 in this table.</p>				
Dr: 2015/16: Gross Expenditure - Management and Support Services	3,447			
Cr: 2015/16: Taxation and Non-Specific Grant Income – Fire Capital Grant		3,447		
4	<p>Explanation: This is a prior period adjustment to the 2015/16 comparative figures in the statements. Fire capital grant was originally offset against Management and Support Services Costs rather than shown as Taxation and Non-Specific Grant Income. This does not impact on the bottom line of the CIES.</p>			

Adjusted misstatements 2016/17 (continued)					
		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
	Dr: 2015/16: Long Term Debtors			170	
	Cr: 2015/16: Gross Expenditure - Management and Support Services		170		
	Dr: 2015/16: General Fund Balance			170	
5	Cr: 2015/16: Earmarked Revenue Reserves – Development Reserve				170
Explanation: This is a prior period adjustment to the 2015/16 comparative figures in the statements. Loans made in the year of £170k to Impeller Assurance and Resilience Ltd (via TWFRS Ltd) were initially treated as revenue expenditure. This amount has now been correctly reflected on the Balance Sheet as a Long Term Debtor that will be repaid in future. This did impact on the bottom line of the CIES showing a reduced Deficit on the Provision of Services of £170k. This initially increased the General Fund Balance by £170k. However, the £170k was subsequently transferred to the Development Reserve through the MIRS.					

Disclosure amendments

A number of corrections and clarifications were made to the disclosures in the notes to the financial statements.

The main amendments included:

- changes to the narrative statement to reflect the amendments in the adjusted misstatements table;
- changes to the expenditure and funding analysis to reflect the amendments in the adjusted misstatements table; **in addition, this note was amended so that it reconciles with the general fund balance and earmarked reserves;**
- changes to the cash flow statement to reflect the amendments in the adjusted misstatements table;

- changes to note 7, movements in earmarked reserves to reflect the set aside of the £245k additional resources (£170k in 2015/16 and £75k in 2016/17) to the development reserve;
- changes to note 10, taxation and non-specific grant income, to reflect the fire capital grant received in each year; this was also reflected in note 29 on grant income;
- an adjustment to depreciation written out in property, plant and equipment (note 11) to split the £1,732k between depreciation written out to the revaluation reserve of £1,168k and the depreciation recognised on the provision of services of £564k;
- a further amendment to the final table in note 11, property, plant and equipment, clarifying the valuations in each year;
- the reflection of the long term debtors arising from the amendments in the adjusted misstatements table in note 15, financial instruments;
- the update to note 30, related parties, to disclose the transactions with Impeller Assurance and Resilience Ltd and TWFRS Ltd;
- note 37, contingent assets, was removed from the financial statements and the text included instead in the provisions note (note 20) as the contingent asset related to fire injury pensions for which a provision has also been made; and
- a new note 37, sets out the detailed disclosures required where prior period adjustments have been made.

Appendix B – Draft management representation letter - UPDATED

To be on Tyne & Wear Fire and Rescue Authority letter headed paper
and addressed to the external auditor:

31 July 2017

Tyne & Wear Fire and Rescue Authority - audit for year ended 31 March 2017

This representation letter is provided in connection with your audit of the statement of accounts for Tyne & Wear Fire and Rescue Authority ('the Authority') for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Authority you determined it was necessary to contact in order to obtain audit evidence.

I confirm as the Finance Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Authority and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Authority's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Authority have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with Code.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Authority has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

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

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Authority involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Authority's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of the Authority's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2016/17 in relation to the Authority's PFI schemes that you have not been made aware of.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Authority will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements as included in the auditor's Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Yours sincerely

Mr D Napier

Finance Officer

Date: 31 July 2017