



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Audit 2010-11

September 2011

Author: Anthony Barrett and Virginia Stevens

Ref: NWF2011

Audit of Financial Statements Report

North Wales Fire Authority

Anthony Barrett, as Appointed Auditor, intends to issue an unqualified audit report on your financial statements. There are no issues to report to you prior to their approval.

Contents

Introduction	4
Proposed audit report	4
Significant issues arising from the audit	4
Appendices	
1 – Final Letter of Representation - WAO	7
2 – Final Letter or Representation - KPMG	9
3 – Proposed audit report of the Appointed Auditor to the North Wales Fire Authority	14
4 – Summary of corrections made to draft financial statements which should be drawn to the attention of those charged with governance	16
5 – Other Audit Observations	17

Status of this report

This document has been prepared for the internal use of North Wales Fire Authority as part of work performed in accordance with statutory functions, the Code of Audit Practice and the relevant statement of responsibilities issued by the Auditor General for Wales.

No responsibility is taken by the Wales Audit Office (the Auditor General and staff) and, where applicable, the appointed auditor in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales (and, where applicable, the appointed auditor) is a relevant third party.

Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@wao.gov.uk.

Introduction

1. Anthony Barrett, as Appointed Auditor is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of North Wales Fire Authority at 31 March 2011 and its income and expenditure for the year then ended.
2. We received the draft financial statements for the year ended 31 March 2011 on 30 June 2011, and have now substantially completed the audit work. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team have already discussed these issues with Dawn Docx and Sandra Forrest.
3. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
4. The quantitative levels at which we judge such misstatements to be material for North Wales Fire Authority are £323,000 for income and expenditure items and working capital balances. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.

Proposed audit report

5. It is the Appointed Auditor's intention to issue an unqualified audit report on the financial statements once you have provided us with Letters of Representation based on that set out in Appendix 1 and 2.
6. The proposed audit report is set out at Appendix 3.

Significant issues arising from the audit

Uncorrected misstatements

7. There are no misstatements identified in the financial statements, which remain uncorrected.

Corrected misstatements

8. There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in Appendix 4.
9. The transfer to IFRS based reporting has involved a significant amount of work. A number of changes have been made to the draft Statement of Accounts. These include:

- Inclusion of IFRS I&E transition statement to illustrate the changes to comparative amounts
- Amendment to Movement in Reserves Statement to ensure agreement to the I&E Account and correct transfers
- Presentation changes

Other significant issues arising from the audit

10. In the course of the audit we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year:
- **we have no concerns about the qualitative aspects of your accounting practices and financial reporting.** We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear;
 - **we did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work;
 - **there were no significant matters discussed and corresponded upon with management which we need to report to you.;**
 - **there are no other matters significant to the oversight of the financial reporting process that we need to report to you.;**
 - **we did not identify any material weaknesses in your internal controls.** We report these where you are not already aware of them or where they may be symptomatic of broader weaknesses in the overall control environment. We did however note a single non material weaknesses and potential area for improvement regarding internal controls. This has been detailed in Appendix 5.

Other Audit Matters

Pension changes and accounting

11. The Budget Report 2010 included an announcement that public service pensions would be increased in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) from April 2011. There has been some debate around the accounting treatment of this change.
12. In line with actuarial guidance a credit (income) of £24million has been posted to 'Non distributed cost' in the Comprehensive income and expenditure statement, which has resulted in a Surplus on the Provision of Services of £29million rather than a surplus of £5million.
13. The decision to move from RPI to CPI is currently before the courts in judicial review proceedings. The outcome of this is not yet known and a contingent liability note has now been included in the Statement of Accounts accordingly.
14. The Statement of Accounts include the allocation of the Firefighters Pension fund to North Wales Fire Authority accounting statements comprising of the Fund Account and Net Assets statement as set out on page 56. The accounting entries

and the disclosures have been based on documentation provided to us on the allocation of the Firefighters Pension fund to North Wales Fire Authority by the Government Actuary's Department.

Appendix 1

Final Letter of Representation - WAO

(Audited Body's Letterhead)

Appointed Auditor
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Date

Representations regarding the 2011 Financial Statements

This letter is provided in connection with your audit of the financial statements of North Wales Fire Authority for the year ended 31 March 2011.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management Representations**Responsibilities:**

We have fulfilled our responsibilities for the preparation of the financial statements in accordance with legislative requirements and Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on International Financial Reporting Standards (IFRSs); in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information Provided:

We have provided you with:

- full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- our knowledge of fraud or suspected fraud that we are aware of and that affects North Wales Fire Authority and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements.
- our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements;
- the identity of all related parties and all the related party relationships and transactions of which we are aware;

Financial Statement representations:

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

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

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Representations by those charged with governance

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by North Wales Fire Authority on **[insert date]**.

Signed by:

[Officer who signs on behalf of management]

Date:

Signed by:

[Officer or Member who signs on behalf of those charged with governance]

Date:

Appendix 2

Final Letter of Representation - KPMG

(Letterhead of Client)

KPMG LLP
3 Assembly Square
Britannia Quay
Cardiff Bay
CF10 4AX

[Date]

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of North Wales Fire Authority (“the Authority”) and of the fire fighters’ pension fund, for the year ended 31 March 2011, for the purpose of expressing an opinion as to whether these:

- i. give a true and fair view of the financial position of the Authority as at 31 March 2011 and of the Authority’s expenditure and income for the year then ended;
- ii. give a true and fair view of the financial transactions of the fire fighters’ 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;
- iii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement and the related notes. The fire fighters’ pension fund financial statements comprise the Fund Account and the Net Assets Statement and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in Accounts and Audit (Wales) Regulations 2005 as amended by Accounts and Audit (Wales)(Amendment) Regulations 2010, for the preparation of financial statements that:

- give a true and fair view of the financial position of the Authority as at 31 March 2011 and of the Authority's expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the fire fighters' 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;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 require adjustment or disclosure have been adjusted or disclosed.

Information provided

4. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud. Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

7. The Authority has disclosed to you all information in relation to:
 - (a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
 - management;
 - employees who have significant roles in internal control; or

- others where the fraud could have a material effect on the financial statements; and
- (b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements. Further, the Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Authority understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

10. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

The Authority further confirms that:

- (a) all significant retirement benefits, including any arrangements that:
- are statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - are funded or unfunded; and
 - are approved or unapproved,
- have been identified and properly accounted for; and
- (b) all settlements and curtailments have been identified and properly accounted for.
- This letter was tabled and agreed at the meeting of the Authority on *[date]*.

Yours faithfully,

Chair of the Authority

Treasurer

Appendix A to the Management Representation Letter of North Wales Fire and Rescue Authority: Definitions

Financial Statements

A complete set of financial statements comprises:

- Movement in Reserves Statement for the period
- Comprehensive Income and Expenditure Statement for the period
- Balance Sheet as at the end of the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information, and
- Balance Sheet as at the beginning of the earliest comparative period (ie a third Balance Sheet) when an authority applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

For pension funds participating in the following pension schemes, pension fund accounts shall be prepared:

a) The Fire fighters' Pension Scheme for Wales

The financial statements of a defined benefit pension fund and fire and rescue service authorities in England and Wales shall contain:

- a) A fund account disclosing changes in net assets available for benefits.
- b) A net assets statement showing the assets available for benefits at the year end.
- c) Notes to the accounts.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue, and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related party

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- a) entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (ie subsidiaries);
- b) associates;
- c) joint ventures in which the authority is a venture;
- d) an entity that has an interest in the authority that gives it significant influence over the authority;
- e) key management personnel, and close members of the family of key management personnel; and
- f) post-employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

Key management personnel are all chief officers (or equivalent), elected members, chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

The following are deemed not to be related parties by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11:

- a) providers of finance in the course of their business in that regard and trade unions in the course of their normal dealings with an authority by virtue only of those dealings; and
- b) an entity with which the relationship is solely that of an agency.

Related party transaction

Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the authority or the government of which it forms part.

Appendix 3

Independent auditor's report to the Members of North Wales Fire Authority

I have audited the accounting statements and related notes of:

- North Wales Fire Authority; and
- Firefighters' Pension Fund

for the year ended 31 March 2011 under the Public Audit (Wales) Act 2004.

North Wales Fire Authority's 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.

Firefighters' Pension Fund's accounting statements comprise the Fund Account and the Net Assets Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the independent auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 7, the responsible financial officer is responsible for the preparation of the statement of accounts, including pension fund accounts, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

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

In addition, I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the accounting statements of North Wales Fire Authority

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of North Wales Fire Authority as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

Opinion on the accounting statements of Firefighters' Pension Fund

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of Firefighters' Pension Fund during the year ended 31 March 2011 and of the amount and disposition of the fund's assets and liabilities as at that date; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword for the financial year for which the accounting statements and related notes are prepared is consistent with the accounting statements and related notes.

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, it does not reflect compliance with 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE in June 2007, or if the statement is misleading or inconsistent with other information I am aware of from my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of North Wales Fire Authority in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit Practice issued by the Auditor General for Wales.

Anthony Barrett

Appointed Auditor

Wales audit Office,

24 Cathedral Road,

Cardiff,

CF11 9LJ

September 2011

Appendix 4

Summary of corrections made to the draft financial statements which should be drawn to the attention of those charged with governance

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Value of correction	Nature of correction	Reason for correction
Dr Cash £2,004,000 Cr Short term investments £2,004,000	Known	Reclassification of short term investment to cash and cash equivalents in line with IFRS.
Dr Provisions £165,000 Cr Earmarked reserves £165,000	Known	Reclassification of pension provision to earmarked reserves

Appendix 5

Other Audit Observations

During our audit we identified the following internal control deficiencies that were not deemed material, but we consider should be drawn to your attention.

Observation	Recommendation	Management Response
The accumulated absences accrual calculation was prepared using a relatively limited sample as the majority of the information required is held at individual fire and rescue stations.	Response managers should be requested to compile the accumulated absence information as part of their year-end procedures	Year end procedures will be changed to ensure the information required is compiled by the Station Managers

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ
Tel: 029 2032 0500
Fax: 029 2032 0600
Textphone: 029 2032 0660
E-mail: info@wao.gov.uk
Website: www.wao.gov.uk