



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

Audit 2008/2009

September 2009

Author: KPMG LLP

Audit of Accounting Statements – Report to
the Audit Committee

**North Wales Fire and Rescue
Authority**

This document is a draft version pending further discussions with the audited and inspected body. Information may not yet have been fully verified and should not be widely distributed.

Subject to the resolution of the issue set out on page 6, it is my intention as, Appointed Auditor, to issue an unqualified Auditor's Report on the accounting statements and related notes.

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Status of this report

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Summary

1. North Wales Fire and Rescue Authority (the Authority) is responsible for the preparation of accounting statements and related notes that present fairly its financial position as at 31 March 2009 and its income and expenditure for the year then ended. I am required to give my opinion on the fairness of the statements.
2. The Authority submitted a Statement of Accounts to me in July and I have now substantially completed the audit of the accounting statements and related notes. I do not seek to obtain absolute assurance that the accounting statements and related notes present fairly the financial position of the Authority, or assurance that they are accurate in every regard, but instead adopt a concept of materiality. In planning and conducting the audit of the accounts, I seek to identify material errors in the accounting statements and related notes ie, those which might be misleading to a reader.
3. The levels at which I judge such errors to be material for the Authority are £309k for income and expenditure items and balance sheet items. Whether an item is judged to be material is not only affected by quantitative issues but can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity; for example officers emoluments and member allowances disclosures.
4. Now that the audit is substantially complete, this report details the key matters arising from it. These matters must be communicated to those charged with governance, in accordance with International Standard on Auditing (ISA) 260, prior to giving an opinion on the accounting statements and related notes. More detailed matters arising and recommendations will be agreed with officers.
5. ISA 260 requires auditors to report to those charged with governance the following matters before they give an opinion on the accounting statements and related notes:
 - relationships that may bear on the auditor's independence;
 - audit planning information; and
 - findings from the audit, including the auditor's views on the qualitative aspects of the entity's accounting and reporting.
6. The first two matters were reported to you in the Regulatory Plan. This report has been prepared to discharge my responsibilities with regard to the third point. My findings are:
 - Subject to the resolution of the issue set out on page 6, I have no concerns about the qualitative aspects of your accounting practices and financial reporting;
 - Subject to the resolution of the issue set out on page 6, whilst there are uncorrected misstatements above the amount we consider to be trivial, we

have agreed with management that the impact is immaterial to the statement of accounts;

- Subject to the resolution of the issue set out on page 6, I do not expect to modify the standard auditor's report;
 - I did not identify any material weaknesses in your internal controls;
 - there are no other matters that I am required by other ISAs to report to you; and
 - there are no other significant audit matters of governance interest to report.
7. Subject to the resolution of the issue set out on page 6, it is my intention to issue an unmodified auditor's report on the accounting statements and related notes once the Authority has provided me with the Letter of Representation as set out in Appendix 1.

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Subject to the resolution of the issue described below, I have no concerns about the qualitative aspects of your accounting practices and financial reporting

8. In the course of the audit I consider qualitative aspects of the financial reporting process. I evaluate the information provided by the accounting statements and related notes to determine if it is relevant, reliable, comparable, material and easy to understand.
9. The following issue is as yet unresolved. At the time of drafting this report, we are in discussion with the Authority's management over the current accounting policies and disclosures in the financial statements in relation to the reversal of the FRS 17 based pension charges included in the Income & Expenditure account and their replacement with actual pension contributions in respect of the new Firefighters Pension Scheme.
10. We are working to resolve this issue as quickly as possible and an update will be provided to members at the meeting.

Subject to the resolution of the issue described above, there are no significant uncorrected audit differences

11. I report to you all uncorrected misstatements other than those of a clearly trivial nature (trivial is defined as entirely inconsequential, whether taken individually or in aggregate, either quantitatively and/or qualitatively). On the basis of our standard methodology, the financial limit for what I consider trivial has been calculated at £15,000.
12. Uncorrected audit differences above this limit are shown in Appendix 2. We have agreed with management that the impact of these differences is not material to the statement of accounts.
13. Misstatements corrected following the audit are also shown in Appendix 2.

Subject to the resolution of the issue described above, I do not expect to modify the standard auditor's report

14. I report any proposed modifications to the standard auditor's report to ensure that you are aware of the reasons for the modifications and have the opportunity to provide any further information and explanations in respect of the matter(s) giving rise to the modification. The report comments on whether:
 - the accounting statements and related notes present fairly the financial position as at 31 March 2009 and its income and expenditure for the year then ended; and

-
- the Statement on Internal Control is compliant with applicable guidance and consistent with our knowledge and understanding of the Authority's arrangements.
15. Subject to the resolution of the issue described above, on the basis of our audit work, no matters have been identified that would require any modification to the audit opinion.

I did not identify any material weaknesses in your internal controls

16. A material weakness in internal control is defined by ISA 260 as 'a deficiency in design or operation which could adversely affect the entity's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements'.
17. I do not, however, normally report information to you concerning a material weakness you know about and have taken appropriate action to correct, unless the weakness is symptomatic of broader weaknesses in the overall control environment and there is a risk that other material weaknesses may occur.
18. You should be aware that I do not provide a comprehensive statement of all weaknesses that may exist in the internal controls, or of all improvements that may be made, but have addressed only those matters that have come to my attention as a result of the audit procedures performed. Non material internal control items including our recommendations for improvement are shown in Appendix 3.
19. I did not identify any material weaknesses in your internal controls.

There are no other matters which I am required by other ISAs to report to you

20. Other auditing standards require us to communicate with you in other specific circumstances including where:
- I suspect or detect fraud, even if the potential effect is not material to my audit of the accounting statements and related notes, unless I am prohibited from doing so under money laundering regulations; and
 - the Authority's accounting statements and related notes and other information in the Statement of Accounts are inconsistent.
21. There are no other matters which I am required by other ISAs to report to you.

There are no other significant audit matters of governance interest to report

22. I am also required to report to you any other significant audit matters of governance interest to allow you to take appropriate action.
23. There are no other significant audit matters of governance interest to report.

Appendix 1

Draft Letter of Representation

(Letterhead)

The Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

[Date]

2008/2009 Statement of Accounts of North Wales Fire and Rescue Authority

This letter is provided in connection with the audit of the accounting statements and related notes of the North Wales Fire and Rescue Authority (the Authority) for the year ended 31 March 2009 for the purpose of expressing an opinion as to whether they present fairly, in all material respects, the financial position of the Authority as at 31 March 2009 and of the result of its operations and its cash flows for the year then ended in accordance with the Accounts and Audit (Wales) Regulations 2005 and the Code of Practice on Local Authority Accounting in the United Kingdom - a Statement of Recommended Practice 2008 (the SORP).

Overall representations

All the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records.

There are no pooled budget projects arising from any partnership agreements entered into under section 31 of the Health Act 1999, associates, joint ventures or joint arrangements other than those disclosed in the accounting statements and associated notes.

The Authority has complied with all conditions imposed by relevant grant paying organisations and can reasonably expect to receive the amounts of grant included within the accounts.

The Authority has complied with all aspects of contractual agreements that would require adjustment to, or disclosure in, the accounting statements and related notes.

The accounting statements and related notes are free of material misstatements, including omissions.

All books of account and supporting documentation and all minutes of meetings of the Authority have been made available to you.

The Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the accounting statements and related notes.

The measurement methods, including the related assumptions, used in determining fair values are appropriate and have been applied consistently. Disclosures relating to fair values are complete and appropriate.

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

Assets

General

All assets included in the balance sheet were in existence at the balance sheet date and owned by the Authority, and free from any lien, encumbrance or charge, except as disclosed in the accounts. The balance sheet includes all tangible assets owned by the Authority.

Fixed assets

All assets over the de minimis level are capitalised. They are revalued every five years via a rolling programme. Also, this year, asset values have been reviewed for impairment in light of the current economic climate and are reflected in the financial statements accordingly. Depreciation is calculated to reduce the net book amount of each asset to its estimated residual value by the end of its estimated useful life in the Authority's operations.

Investments

All investments included in the balance sheet were in existence at the balance sheet date and owned by the Authority, and free from any lien, encumbrance or charge, except as disclosed in the accounts. The balance sheet includes all investments owned by the Authority. The Authority's investments have been reviewed for impairment and any such impairment is reflected in the financial statements accordingly.

Current assets

On realisation in the ordinary course of the Authority's operations, the other current assets in the balance sheet are expected to produce at least the amounts at which they are stated. Adequate provision has been made against all amounts owing to the Authority which are known, or may be expected, to be irrecoverable.

There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

Liabilities

General

All liabilities, both actual and contingent, have been recorded and disclosed as appropriate as well as all guarantees that we have given to third parties.

There is no pending litigation which may result in significant loss to the Authority, and which have not been disclosed in the accounting statements and related notes, either as current or contingent liabilities.

All obligations under finance leases or hire purchase contracts have been disclosed in the accounts.

All unfunded benefits (such as discretionary added years) have been considered in the compilation of the FRS 17 figures included in the accounting statements and related notes.

Provisions

Included within provisions is an amount in respect of backdated pension commutation lump sums. The provision has been recognised on the basis that it is probable that a transfer of economic benefits will arise in the future and it is possible to make a reliable estimate of the liability.

Results

Except as disclosed in the accounting statements and related notes, the results for the year were not materially affected by transactions of a sort not usually undertaken by the Authority, or circumstances of an exceptional or non-recurring nature.

Internal control

We acknowledge my responsibility for the design and implementation of internal control to prevent and detect error. There have been no:

- irregularities involving management 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; and
- communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

Post balance sheet events

Except as disclosed in the accounting statements and related notes, there have been no material changes since the date of the balance sheet affecting liabilities and commitments, and no events or transactions have occurred which, though properly excluded from the accounting statements and related notes, are of such importance that they should have been brought to the notice of the auditor.

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 fair presentation of the accounting statements and related notes in accordance with the applicable financial reporting framework.

We acknowledge our collective responsibility for the preparation of the Statement of Accounts, which has been approved by the Authority.

We have disclosed to you all known or possible non-compliance with laws and regulations whose effects should have been considered when preparing the accounting statements and related notes.

There are no other material transactions with related parties (as defined by FRS 8 and the SORP), other than those recorded and disclosed in the accounting statements and related notes.

We acknowledge our responsibility for the design and implementation of internal control to prevent and detect fraud and have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Authority's accounting statements and related notes communicated to the Authority by employees, former employees, regulators or others.

We have disclosed to you our knowledge of fraud or suspected fraud affecting the Authority involving:

- those charged with governance;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the accounting statements and related notes.

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

Signed by

S.151 Officer

Date

Leading Member

Date

Appendix 2

Summary of corrections to accounting statements

Nature of correction	Reason for correction
Dr Fixed assets: impairment £199,000 Cr Capital adjustment account £199,000	Reversal of impairment to capitalised planned maintenance costs following allocations to individual fire stations.
Dr Capital adjustment account £36,407 Cr Fixed assets: additions £36,407	Expensing of non capital items included within planned maintenance costs.
Dr Fixed assets £92,430 Cr Creditors £92,430 Dr Capital adjustment account £67,600 Cr Fixed assets: impairment £67,600 Dr Revaluation reserve £24,830 Cr Fixed assets: revaluations £24,830	Accrual of rentions on development work carried out by the year end.
Dr Capital adjustment account £50,000 Cr Provisions £50,000	Accrual for liability arising on historic underpayment of pensions.

Summary of uncorrected audit differences

Nature of correction	Reason for correction
Dr Revaluation reserve £42,000 Cr Fixed assets: revaluations £42,000	Reversal of recognition of revaluation gain on the Beaumaris fire station.
Dr Trade debtors £10,128 Dr Payments in advance £7,000 Cr Trade creditors £17,128	Reclassification of debits on the creditors ledger.

Appendix 3

Summary of non material internal control items

No.	Observation and risk	Recommendation	Management response
1	Capitalisation policy		
	<p>It was noted that a number of items included within additions to fixed assets in the year were not capital in nature.</p> <p>These had been included within capital planned maintenance costs.</p>	<p>A formal review process should be adopted to ensure only appropriate expenditure is capitalised in future.</p>	<p>Further guidance on what constitutes capital expenditure will be issued to staff members who are responsible for procuring capital works and to staff responsible for processing invoices for payment.</p> <p>A review of all capital payments processed will be undertaken quarterly by Conwy County Borough Council staff to ensure all invoices paid as capital works meet the definition of capital expenditure.</p> <p>Responsible officer Principal Accountant</p> <p>Due date Guidance Issued by 30 September 09 First quarterly review to be undertaken September 09</p>
2	Accounting for retentions		
	<p>It was noted that the Authority had no process for routinely identifying current retentions owed on development works and accounting for them as current liabilities.</p>	<p>A process should be established to identify the level of retentions owed to contractors as part of the financial close down procedures.</p>	<p>Amendment to the year end procedures to include direct contact with the Estates Department by Conwy County Borough Council staff to ascertain the level of retentions owed to contractors at year end.</p> <p>Responsible officer Principal Accountant</p> <p>Due Date April 2010</p>
3	Impairment of non-attributed costs		

	Capitalised planned maintenance costs are not currently allocated to the individual fire stations to which they relate on the fixed asset register. As a result some were incorrectly impaired in the current year.	Capitalised works to fire stations should be allocated to the stations to which they relate on a timely basis.	<p>Year end procedures will be amended to include allocation of planned capital maintenance costs to individual fire stations.</p> <p>Responsible officer Principal Accountant</p> <p>Due Date Accounts amended for 2008/09, September 2009</p>
4	Service level agreement with Conwy County Borough Council		
	<p>Throughout the year there was no formal contract in place between the Authority and CCBC for the provision of financial services (including the preparation of the financial statements). Whilst an implied contract may have arisen following continued performance by both the Authority and CCBC (with a fee for services being paid to CCBC and them providing such services), it remains a significant risk to the Authority not to have a documented contract for such a key service.</p> <p>This increases the likelihood of contractual disputes and an expectation gap developing between the Authority and CCBC</p>	<p>A formal contract for the year should be agreed and signed by the Authority and CCBC. A process should be put in place for the annual review and re-negotiation of such contract. This ideally should be performed in advance of the commencement of the year to which it relates.</p>	<p>Although there was no formal contract for 2008/09 negotiations had taken place prior to the expiry of the previous contract between the Deputy Chief Fire Officer and the Section 151 Officer for Conwy County Borough Council and a verbal agreement was in place that Conwy would continue to provide the same level of financial services for the next three years.</p> <p>The contract has now been signed and the next review date will be prior to the expiry of the new agreement in March 2011.</p> <p>Responsible officer Deputy Chief Fire Officer</p> <p>Due Date January 2011</p>

Update on 2007/08 summary of non material internal control items

No.	Observation and risk	Recommendation	Management response
1	<p>Journals</p> <p>Certain journals are prepared and posted by a member of the finance team without any independent review or authorisation.</p>	<p>Recommendation</p> <p>It is best practice for all journals to be reviewed by another member of the finance team prior to posting to ensure accurate and appropriate.</p> <p>2007/08 management response</p> <p>Management will ensure that steps be put in place to ensure all journals are authorised.</p>	<p>KPMG update</p> <p>Whilst there is a process that requires all journals to be authorised prior to them being posted there is no way of checking that the authorised journal slips account for journals posted onto the system; as the system does not allocate a sequential number to manual journal postings.</p> <p>Updated management response</p> <p>A report from the General Ledger can be provided to the Auditors detailing all the journals that have been posted to the system so systematic checks can be undertaken to ensure that only 'authorised' journals have been posted to the ledger.</p>

2	<p>Bad debt policy</p> <p>During the audit it was noted that there was no established policy for bad debt provisioning and that the calculation is inconsistent from year to year.</p>	<p>Recommendation</p> <p>A bad debt policy should be established. Common approaches include:</p> <ul style="list-style-type: none"> - a line by line assessment by management of each debt - a general percentage of the year end debtor balances based on the age of debts and the past experience of recoverability rates <p>2007/08 management response</p> <p>Although not a material issue management will set a policy in line with the recommendations which will be appropriate to the level of risk involved.</p>	<p>KPMG update</p> <p>A policy was in place for 2008/09.</p>
3	<p>Employer's liability claims</p> <p>The Authority has a provision for outstanding employers liability claims at the year end, however its calculation is not based on a consistent estimation technique and its basis changes from year to year.</p>	<p>Recommendation</p> <p>We recognise that such provisions will remain a subjective area and acknowledge that each claim may be unique, however it is recommended that a consistent estimation basis is applied, taking into account the number of claims and estimated costs.</p> <p>2007/08 management response</p> <p>In future management will ensure that the estimation technique for outstanding employers' liability claims at the year end is consistent year on year.</p>	<p>KPMG update</p> <p>Provisions for employers liability claims at the year ended 31 March 2009 are based on the number of claims outstanding and an estimation of the likely cost to the Authority.</p>

4	<p>Fixed asset register</p> <p>During the audit a number of minor errors in formulae were identified within the Authority's fixed asset register which resulted in incorrect depreciation being calculated.</p>	<p>Recommendation</p> <p>It is recommended that the spreadsheets on which the fixed assets are maintained are reviewed to ensure all depreciation rates and costs being used as the basis for depreciation calculations are accurate.</p> <p>2007/08 management response</p> <p>A new asset register system, Terrarius Assets, has been purchased to facilitate the transition from UK GAAP (UK General Accepted Accounting Practice) to International Financial Reporting Standards. Staff are in the process of transferring the fixed asset data on to the new system which will prevent any further occurrences of errors in formula.</p>	<p>KPMG update</p> <p>No similar issues identified in 2008/09.</p>
5	<p>Cut off</p> <p>During the audit it was identified that a batch of invoices relating to March 2008 liabilities had not been posted on the accounting system until after the year end. This resulted in the Authority's costs and liabilities in the draft accounts being understated.</p>	<p>Recommendation</p> <p>We recommend that a full review of post year end invoices is performed at the year end to ensure that any relating to goods and services received during the year are correctly captured.</p> <p>2007/08 management response</p> <p>Management have now put in place procedures to prevent a re-occurrence of the mis-posting of year end payments.</p>	<p>KPMG update</p> <p>No similar issues identified in 2008/09.</p>

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