



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Audit Year 2005/2006

October 2006

Authors: Anthony Barrett and Matthew Edwards

Ref: 732A2006

# Audit of the Financial Statements – Reporting to Those Charged with Governance

## **North Wales Fire Authority**

It is my intention to issue an unqualified auditor's report on the financial statements.

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## Status of this report

This report has been prepared for the internal use of the named body. Our reports are prepared:

- In relation to audit, under the relevant enabling legislation and the responsibilities detailed in the Code of Audit and Inspection Practice, and in the context of the 'Statement of Responsibilities', issued by the Auditor General for Wales.
- In relation to inspection, following inspection work carried out under the Local Government Act 1999, as amended by the Public Audit (Wales) Act 2004, and in accordance with guidance issued by the National Assembly for Wales.

Reports are prepared by the staff of the Wales Audit Office and appointed auditors, and addressed to members or officers including those designated as accounting or accountable officers. They are prepared for the sole use of the named body, and no responsibility is taken by the Wales Audit Office or appointed auditors to any director/member or officer in their individual capacity, or to any third party.

## Summary

1. North Wales Fire Authority (the Fire Authority) is responsible for the preparation of financial statements that fairly present its financial position as at 31 March 2006, and its income and expenditure in the year then ended. I am responsible for undertaking an audit and reporting whether in my opinion, the financial statements fairly present the financial position at the year-end, and income and expenditure for the year then ended.
2. The Fire Authority submitted draft financial statements to me on 19 June 2006 and I have now substantially completed the audit of those statements. The audit does not seek to obtain absolute assurance that the financial statements fairly present your financial position, or assurance that they are accurate in every regard, but instead, a concept of materiality is adopted. In planning and conducting the accounts audit, we seek to identify material errors (ie, those which might be misleading to a reader) in your financial statements.
3. Now that the audit is substantially complete, this report details the key matters arising that must be communicated to those charged with governance in accordance with International Standards on Auditing (ISA 260), prior to giving an opinion on those financial statements. More detailed matters arising and recommendations will be agreed with officers.
4. ISA 260 requires auditors to report to those charged with governance the following matters, before they give an opinion on the financial statements:
  - 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.
5. The first two matters were reported to you in our Audit Strategy. This report has been prepared to discharge our responsibilities with regard to the third point. The findings on the audit of the financial statements are:
  - there are no concerns with the qualitative aspects of your accounting practices and financial reporting;
  - there are no expected modifications to the standard auditor's report;
  - there are uncorrected misstatements;
  - the audit did not identify any material weaknesses in internal control;
  - there are no other matters which need to be reported to you, as required by other ISAs; and
  - there are no other audit matters of governance interest to report.

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6. It is my intention to issue an unqualified auditor's report on the financial statements, once the Fire Authority has responded to our Final Letter of Representation (Appendix 1).

### **There are no concerns with the qualitative aspects of your accounting practices and financial reporting**

7. In the course of the audit, qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements, are considered.

***Current position at the Fire Authority***

**No matters arising**

No matters have come my attention that I wish to draw to your attention.

### **There are no expected modifications to the standard auditor's report**

8. I report any proposed modifications to the auditor's report on the financial statements, 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 statements fairly present the financial position as at 31 March 2006, 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 Fire Authority's arrangements.

***Current position at the Fire Authority***

**No modifications to the auditor's report**

On the basis of our audit work, no matters have been identified that would require any modification to the audit opinion. The standard audit opinion is attached (Appendix 3).

### **There are uncorrected misstatements**

9. 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 trivial limits have been calculated for the Fire Authority as follows:
- gross expenditure £15,000; and
  - gross assets (less working capital) £12,000.

**Current position at the Fire Authority****Uncorrected misstatements**

A number of non-trivial errors were identified in the course of the audit. In the majority of cases, appropriate amendment has been made by management. However, I have identified non-trivial errors relating to provisions which, although drawn to the attention of management, have not been corrected in the financial statements. I therefore formally request the correction of these items in the financial statements:

- The CIPFA Statement of Recommended Practice (SoRP), which complies with Financial Reporting Standard 12, requires provisions to be made when an authority has a present obligation (legal or constructive), as a result of a past event.
- Note 9 to the balance sheet makes it clear that the provisions retained by the Authority are to meet future rather than past expenditure, that is certain or likely to be incurred. Whilst the following amounts retained as provisions do not comply with the requirements of the SoRP, it is accepted that the approach adopted by the Authority is both prudent and transparent:
 

– 2006/2007 Budget Provision	£250,000;
– Rank to Role Provision	£100,000;
– Equal Pay Provision	£ 90,000;
– Control Provision	£ 40,000; and
– Estates Provision	£ 35,000.

It is clear that amounts set aside are generally being utilised within a reasonable period. The constituent authorities are also aware of the arrangements and are content with it, and treatment is consistent with that applied by the Fire Authority since 1996.

Where you are satisfied with the position taken by management in respect of these issues, ISA 260 requires me to obtain a written explanation from you detailing the reasons for the non-correction of these items.

## The audit did not identify any material weaknesses in internal control

10. 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’.
11. I do not however, normally report information to you concerning a material weakness of which you are aware, and in respect of which, in our opinion, appropriate corrective action has been taken, unless the weakness is symptomatic of broader weaknesses in the overall control environment and there is a risk that other material weaknesses may occur.
12. 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 our attention as a result of the audit procedures performed.

***Current position at the Fire Authority*****No weaknesses identified**

The audit did not identify any weaknesses in internal control or corrected errors relevant to your wider governance responsibilities that we need to report to you.

**There are no other matters which need to be reported to you, as required by other ISAs**

13. Other auditing standards require us to communicate with you in other specific circumstances, including where:
- we suspect or detect fraud, even if the potential effect is not material to our audit of the financial statements; and
  - there is inconsistency between the Fire Authority's financial statements and other information in documents containing the financial statements.

***Current position at the Fire Authority*****No matters arising**

I have identified no such matters in the course of our audit.

**There are no other audit matters of governance interest to report*****Current position at the Fire Authority*****No matters arising**

There are no other matters that I wish to draw to your attention.



## Appendix 1

## Final Letter of Representation

Mr Anthony Barrett  
Engagement Partner  
Wales Audit Office  
Unit 4, Evolution  
Lakeside Business Village  
St David's Park  
Ewloe  
CH5 3XP

23 October 2006

Dear Anthony

### Representations regarding the 2005/2006 Statement of Accounts

This representation letter is provided in connection with your audit of the financial statements of the North Wales Fire Authority for the year ended 31 March 2006 for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the North Wales Fire Authority as at 31 March 2006 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 2005 Local Government Statement of Recommended Practice (the LG SoRP).

### Representations made by management

#### Overall representations

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

There are no pooled budget projects arising from any partnership agreements, joint ventures or joint arrangements other than those disclosed in the accounting statements and associated notes.

The Fire Authority has complied with all conditions imposed by relevant grant paying organisations and has received the amounts of grant included within the accounts.

The Fire Authority has complied with all aspects of contractual agreements that would require adjustment to, or disclosure in, the financial statements.

The financial statements are free of material misstatements, including omissions except those detailed below.

All accounting records and supporting documentation and all minutes of meetings of the Fire Authority have been made available to you.

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

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 auditor identified a number of misstatements in the Statement of Accounts relating to provisions that have not been corrected. The following amounts have been set aside from the 2005/2006 underspend and have been classified as provisions when they do not strictly comply with the definition set out in Financial Reporting Standard 12 and the CIPFA Statement of Recommended Practice (SoRP). Since 1996 the Fire Authority has taken a pragmatic approach over the strict inability to hold reserves and has classified any reserves (as defined by the SoRP) as provisions and has clarified this view with our external auditors as the annual financial statements are audited. Further detail is given on page 5 of the Statement of Accounts. In our opinion to treat these amounts differently would be misleading and we believe the current method of disclosure is transparent to all parties concerned. The provisions misstated are:

2006/2007 Budget Provision	£335,518
Rank to Role Provision	£100,000
Equal Pay Provision	£90,000
Control Provision	£40,000
Estates Provision	£35,000

## ASSETS

All assets included in the balance sheet were in existence at the balance sheet date and owned by the North Wales Fire 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 North Wales Fire Authority.

Appropriate assets over £100 are capitalised. Buildings are revalued every five years using 'open market value' for office accommodation and 'depreciated replacement cost' for fire stations. All the Fire Authority's buildings are depreciated over their estimated useful life and a charge made for depreciation. Other assets are recognised at historic cost and depreciated over their useful lives.

On realisation in the ordinary course of the Fire 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 North Wales Fire 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**

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 Fire Authority, and which has not been disclosed in the financial statements, 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 FRS17 figures included in the financial statements.

## **Results**

The results for the year were not materially affected by transactions of a sort not usually undertaken by North Wales Fire Authority, or circumstances of an exceptional or non-recurring nature.

## **Internal control**

I 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**

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 financial statements, 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 financial statements in accordance with the applicable financial reporting framework.

We acknowledge our collective responsibility for the preparation of the financial statements, which were approved by Fire Authority on 23 June 2006.

We have disclosed to you all known or possible non-compliance with laws and regulations whose effects should have been considered when preparing the financial statements. In particular we draw your attention to the misstatements on provisions as detailed above and page 5 of the Statement of Accounts.

There are no other material transactions with related parties (as defined by FRS 8 and the LG SoRP) other than those recorded and disclosed in the financial statements.

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 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  
23 October 2006

Chair  
23 October 2006

## Appendix 2

## Summary of corrections to draft financial statements

Nature of correction	Reason for correction
The 'Gross Book Value at 1 April 2005' for Land and Buildings disclosed Note 1 to the balance sheet 'Fixed Assets' was overstated by £909,000. The 'Accumulated Depreciation at 1 April 2005' for Land and Buildings was also overstated by a corresponding amount.	The 'Gross Book Value at 1 April 2005' and the 'Accumulated Depreciation at 1 April 2005' were misstated as they did not agree to carried forward balances contained in the 2004/2005 certified financial statements. The amendments had no effect on any other disclosures in the accounts.
Note 1 did not disclose the net carrying amount at the beginning of the financial period (1 April 2005) for each class of tangible fixed asset.	The exclusion of the net carrying amount at the beginning of the financial period did not comply with paragraph 4.30 of the 'Code of Practice on Local Authority Accounting in the United Kingdom 2005: A SoRP'.
Water tenders disclosed in Note 1 to the balance sheet 'Capital Commitments 2006/2007 onwards' was revised from £1,030,000 to £1,256,000. This increased total capital commitments from £1,349,000 to £1,575,000.	The disclosure was revised to reflect additional orders for water tenders, which were excluded in error. This amendment had no effect on any other disclosures in the accounts.
Note 9 to the balance sheet 'Provisions' included an 'Audit Provision' of £45,000. The provision was subsequently removed and included in the '2006/2007 Budget Provision'.	The 'Audit Provision' could not be substantiated. This amendment had no effect on any other disclosures in the accounts.
Note 9 to the balance sheet 'Provisions' included a 'Uniform Provision' of £83,000. The balance relates to the future acquisition of personal protective equipment which was included in the 2005/2006 capital programme. The balance was subsequently revised from a provision to a capital reserve.	The disclosure was revised to reflect the true nature of the balance. Appropriate adjustments have been incorporated into the balance sheet.
'Corporate and Democratic Core Costs' reflected in the Consolidated Revenue Account included costs relating to fire hydrant licences amounting to £19,000. The Account was subsequently amended with the cost being reflected in Community Fire Safety.	The treatment did not comply with the requirements of Annex E to the Best Value Accounting Code of Practice 2005. This amendment had no effect on any other disclosures in the accounts.
'Non Distributed Costs' reflected in the Consolidated Revenue Account was understated by £125,000 due to the exclusion of past service costs. 'Non Distributed Costs' were subsequently amended to include past service costs.	The treatment did not comply with the requirements of Annex E to the Best Value Accounting Code of Practice 2005. This amendment had no effect on any other disclosures in the accounts.
The table to Note 4(iii) to the Consolidated Revenue Account 'Movements on the Pension Fund' omitted 'Past Service Gains' for the Clwyd Pension Fund of £225,000. The Table was subsequently amended to include the past service gains.	The treatment did not comply with paragraph F3 of the 'Code of Practice on Local Authority Accounting in the United Kingdom 2005: A SoRP'.

## Appendix 3

## **Independent auditor's report to the members of North Wales Fire Authority**

I have audited the accounting statements of North Wales Fire Authority for the year ended 31 March 2006 under the Public Audit (Wales) Act 2004. The accounting statements comprise the Revenue Account, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounts.

This report is made solely to North Wales Fire Authority in accordance with Part 2 of the Public Audit (Wales) Act 2004 and for no other purpose, as set out in paragraph 42 of the Statement of Responsibilities of Appointed Auditors, and Inspectors, and of Audited and Inspected Bodies (2005) prepared by the Auditor General for Wales.

### **Respective responsibilities of the Chief Finance Officer and auditors**

The Chief Finance Officer's responsibilities for preparing the Statement of Accounts in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities for the Statement of Accounts.

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 present fairly the accounting position of the Fire Authority in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

I review whether the statement on internal control reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003'. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information that I am aware of from my audit of the accounts. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Fire Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements.

My responsibilities do not extend to any other information.

## **Basis of audit opinion**

I conducted my audit in accordance with the Public Audit (Wales) Act 2004, the Code of Audit and Inspection Practice issued by the Auditor General for Wales, 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. It also includes an assessment of the significant estimates and judgments made by the Fire Authority in the preparation of the accounting statements, and of whether the accounting policies are appropriate to the Fire 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 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.

## **Opinion**

In my opinion the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the accounting position of the North Wales Fire Authority as at 31 March 2006 and its income and expenditure for the year then ended.


## **Certificate**

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

My unqualified conclusion whether North Wales Fire Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources will be reported separately in the Annual Audit Letter.

Anthony Barrett  
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23 October 2006



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