



WALES AUDIT OFFICE
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Audit of Financial Statements – Report 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 document

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Summary

1. North Wales Fire Authority (the Authority) is responsible for the preparation of Financial Statements that fairly present its financial position as at 31 March 2007, and its income and expenditure in the year then ended. I am required to give my opinion on the accuracy and fairness of these statements.
2. The Authority submitted draft Financial Statements to me in June 2007 and I have now substantially completed the audit of those statements. I do 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 adopt a concept of materiality. In planning and conducting the Accounts Audit, I seek to identify material misstatements (ie, those which might result in a reader of the accounts being misled) in your Financial Statements. The quantitative levels at which I judge such misstatements to be material for your Authority are £317,000 for income and expenditure items, and £24,000 for 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.
3. 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 those Financial Statements. More detailed matters arising out of the audit will be discussed 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 the Regulatory Plan. This report has been prepared to discharge my responsibilities with regard to the third point. My findings on the audit of the Financial Statements are:
 - I have no concerns about the qualitative aspects of your accounting practices and financial reporting;
 - there are uncorrected misstatements;
 - I do not expect to modify the standard auditor's report;
 - I did not find any material weaknesses in your internal control;
 - there are no other matters which I am required by other ISAs to report to you; and
 - there are no other audit matters of governance interest to report.

-
6. It is my intention to issue an unqualified auditor's report on the Financial Statements once the Authority has provided me with the Letter of Representation set out in Appendix 1.

I have no concerns about the qualitative aspects of your accounting practices and financial reporting

7. In the course of the audit I consider qualitative aspects of the Financial Reporting Process. I evaluate the information provided by the Financial Statements to determine if it is relevant, reliable, comparable, material and easy to understand.

There are no matters arising

There are uncorrected misstatements

8. I report to you all uncorrected misstatements other than those of a clearly trivial nature (trivial is defined as inconsequential, whether taken individually or in aggregate, either quantitatively and/or qualitatively). On the basis of the standard methodology, the financial limit for what I consider trivial has been as follows:
- gross expenditure £15,000; and
 - gross assets (less working capital) £12,000.

Uncorrected misstatements

A number of non-trivial errors were identified in the course of the audit. In the majority of cases, appropriate amendments have 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 Chartered Institute of Public Finance Accountant's (CIPFA) Statement of Recommended Practice (SoRP), which complies with Financial Reporting Standard (FRS) 12, requires provisions to be made when an authority has a present obligation (legal or constructive), as a result of a past event.
- Note 17 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:
 - Rank to Role Provision £44,296;
 - Equal Pay Provision £90,000; and
 - Control Provision £141,293

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 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.

I do not expect to modify the standard auditor's report

9. The report comments on whether:
 - the statements fairly present the financial position as at 31 March 2007, and its income and expenditure for the year then ended; and
 - the Statement of Internal Control (SIC) is compliant with applicable guidance, and consistent with our knowledge and understanding of the Authority's arrangements.
10. 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.

There are no modifications to the auditor's report

On the basis of my audit work, no matters have been identified that would require any modification to the audit opinion. The proposed audit opinion is attached in Appendix 3 and I anticipate I will be able to issue a certificate formally closing the audit.

I did not find any material weaknesses in your internal control

11. 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'.
12. 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.
13. 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.

There are no material internal control weaknesses identified

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

14. Other auditing standards require me to communicate with you in other specific circumstances including where:
- I suspect or detect fraud, even if the potential effect is not material to our audit of the Financial Statements; and
 - information is presented within documents containing the audited Financial Statements which is misstated, or is materially inconsistent with the audited accounts.

There are no other matters arising

There are no other audit matters of governance interest to report

There are no other matters of governance interest arising

Appendix 1

Final Letter of Representation

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

Dear Anthony

Representations regarding the 2006-2007 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 2007 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 2007 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 2006 Local Government Statement of Recommended Practice (the LG SoRP).

Representations made by Management

Overall Representations

1. All the transactions undertaken by the Fire Authority have been properly reflected and recorded in the accounting records.
2. 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.
3. 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.
4. The Fire Authority has complied with all aspects of contractual agreements that would require adjustment to, or disclosure in, the financial statements.
5. The financial statements are free of material misstatements, including omissions except those detailed in paragraph 9 below.
6. All accounting records and supporting documentation and all minutes of meetings of the Fire Authority have been made available to you.

7. 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.
8. 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.
9. 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 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 25 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 :-

Rank to Role Provision	- £44,296
Equal Pay Provision	- £90,000
Control Provision	- £141,293

Assets

10. 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.
11. 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.
12. 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.
13. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

Liabilities

14. 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.
15. There is no pending litigation which may result in significant loss to the Fire Authority, and which have not been disclosed in the financial statements, either as current or contingent liabilities.

16. All obligations under finance leases or hire purchase contracts have been disclosed in the accounts.
17. All unfunded benefits (such as discretionary added years) have been considered in the compilation of the FRS17 figures included in the financial statements.

Results

18. 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

19. 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

20. 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

21. We acknowledge that the representations made by management, above, have been discussed with us.
22. We acknowledge our responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework.
23. We acknowledge our collective responsibility for the preparation of the financial statements, which were approved by Fire Authority on 18 June 2007.
24. 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 in paragraph 9 above and page 25 of the Statement of Accounts.
25. 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.

26. 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.
27. 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.

Although not officially part of the Letter of Representation as it is the last audit to be performed by the Wales Audit Office we would like to thank the staff who have been involved with auditing the Authority over the past 11 years for their co-operation and good working relationship, in particular the Audit Managers who have provided a high level of service at all times.

Signed by

Treasurer

Date 24 September 2007

Chairman

Date 24 September 2007

Appendix 2

Summary of corrections to draft Financial Statements

Nature of correction	Reason for correction
<p>Note 7 'External Audit Fees' was amended from £55,857 to £51,192. Fees payable under Section 16 of the Public Audit Wales Act 2004 (the 2004 Act) was amended from £32,478 to £41,452. Fees payable in respect of statutory inspection under Section 10 of the Local Government Act 1999 was amended from £23,379 to £9,740.</p>	<p>'External audit fees' was misstated in the draft Financial Statements. This amendment had no effect on any other disclosures in the accounts.</p>
<p>Sundry creditors included in Note 22 'Creditors' was amended from £1,065,000 to £886,000.</p>	<p>Receipts in advance disclosed within the Sundry creditors balance was misstated in the draft financial statements. A corresponding entry was included with the debtors balance disclosed in Note 21. This amendment had no effect on any other disclosures in the accounts.</p>
<p>'Net Pension Deficit' disclosed in Note 24 'Assessment of Pension Liabilities for FRS 17 disclosures' was amended from £169,094,000 to £171,268,000.</p>	<p>The 'Estimated Liabilities in the Firefighters' Pension Scheme' and the 'Share of assets in the Clwyd Pension Fund' were misstated in the draft Financial Statements as the amounts did not correspond to notification from actuaries. The 'Pension Liability' and 'Pension Reserve' disclosed in the Balance Sheet were amended to reflect the adjustment. This amendment had no effect on any other disclosures in the accounts.</p>
<p>'Contribution to/(from) various provisions' disclosed in Note 25 Cash flow – Reconciliation to Income and Expenditure Account was amended from £503,000 to £533,000 with a corresponding adjustment in Note 25 to Government Grants Deferred which was amended from £0 to £30,000.</p>	<p>Contribution from provisions in the 'Cash Flow Statement' was misstated in the draft Financial Statements. This amendment had no effect on any other disclosures in the accounts.</p>

Appendix 3

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

I have audited the accounting statements of the Authority for the year ended 31 March 2007 under the 2004 Act. The accounting statements comprise the Income and Expenditure Account, Statement of Movement on General Fund Balance, Statement of Recognised Gains and Losses, Balance Sheet, 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 the Authority in accordance with Part 2 of the 2004 Act 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 (the Auditor General).

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 SoRP on Local Authority Accounting in the United Kingdom 2006 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 ISA (UK and Ireland).

I report to you my opinion as to whether the accounting statements present fairly the financial position of the Authority in accordance with relevant legal and regulatory requirements, and the SoRP on Local Authority Accounting in the United Kingdom 2006.

I review whether the Statement on Internal Control reflects compliance with CIPFA's guidance 'The SIC 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 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 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 2004 Act, the Code of Audit and Inspection Practice issued by the Auditor General, and ISA (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 Authority in the preparation of the accounting statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements 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 SoRP on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007, 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 2004 Act and the Code of Audit and Inspection Practice issued by the Auditor General for Wales.

My conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2007 will be reported separately in the published Relationship Manager Audit Letter.

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Date:



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