

Audit 2007/2008
12 September 2008
Author: KPMG LLP

Audit of Accounting Statements - Report to
Those Charged with Governance

North Wales Fire & 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.

It is the Appointed Auditor's intention to issue an unqualified Auditor's Report
on the
accounting statements and related notes.

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Summary

1. This report has been prepared by KPMG LLP on behalf of Anthony Snow, as the Appointed Auditor of the North Wales Fire & Rescue Authority. As referred to in the Regulatory Plan 2007/08, KPMG LLP have delivered the audit on the Appointed Auditor's behalf.
2. North Wales Fire & 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 2008 and its income and expenditure for the year then ended. I am required to give my opinion on the accuracy and fairness of the statements.
3. 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). The levels at which we judge such errors to be material for the Authority are £321,000 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 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.

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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:

- 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.

7. It is my intention to issue an unqualified 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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Detailed Report

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.

There are no matters arising.

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 financial limit for what I consider trivial has been calculated at £16,000.

Uncorrected misstatements

A number of non-trivial errors were identified in the audit of the statement of accounts.

In the majority of cases, appropriate amendments have been made by management. A summary of these corrections is shown for information in Appendix 2.

However, I have also identified non-trivial errors relating to provisions which, although drawn to the attention of management, have not been corrected in the financial statements. Details of these errors are shown below:

- The CIPFA Statement of Recommended Practice (SORP) 2007 and Financial Reporting Standard 12 require provisions to be made when an authority has a present obligation (legal or constructive), as a result of a past event.

- Note 17 of the Statement of Accounts states that a number of the provisions held by the Authority are to meet future rather than past expenditure. Such provisions do not comply with the requirements of the SORP, although it is accepted that the approach adopted by the Authority is transparent.

- The specific provisions which do not comply with the SORP are:

- Pension provision £455,000
- Retained / equal pay provision £90,000
- Rank to role provision £30,000
- Capital provision £82,000
- Control provision £143,000

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- The earmarked amounts are generally being utilised within a reasonable period of time. The constituent authorities are aware of and have approved the arrangements and the treatment is consistent with that applied by the Authority since 1996.

The issue of whether a Fire & Rescue Authority has the statutory ability to hold reserves is currently being researched and an update will be provided to members at the Executive Panel meeting.

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

10. 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 2008 and its income and expenditure for the year then ended; and

- the Statement of Internal Control is compliant with applicable guidance and consistent with our knowledge and understanding of the Authority's arrangements.

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.

I did not identify any material weaknesses in your internal controls

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.
No material internal control weaknesses were identified during the audit.
A summary of non material items is shown for information in Appendix 3, including recommendations for improving the related internal controls.
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There are no other matters which I am required by other ISAs to report to you

14. 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.

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

There are no other significant matters of governance interest arising.
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Final Letter of Representation

(Letterhead)

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

[Date]

2007/2008 Statement of Accounts of North Wales Fire & Rescue Authority

This letter is provided in connection with the audit of the accounting statements and related notes of the North Wales Fire & Rescue Authority (the Authority) for the year ended 31 March 2008 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 2008 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 2007 (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.

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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.

A number of misstatements were identified in the Statement of Accounts relating to provisions. The 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 Authority has taken a pragmatic approach over its inability to hold reserves and has classified any earmarked reserves as provisions. The issue has been fully disclosed in the Statement of Accounts in note 17. 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 which are misstated are:

- Pension provision - £455,000
- Retained / equal pay provision -£90,000
- Rank to role provision -£30,000
- Capital provision -£82,000
- Control provision - £143,000

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 deminimis level are capitalised. They are revalued (every five years via a rolling programme). 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.

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

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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.

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

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

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

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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 Leading Member

Date Date

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Appendix 2

Summary of corrections to draft financial statements

Nature of correction Reason for correction

Dr Accruals £40,000

Cr Income & Expenditure £40,000

Reversal of accrual for redundancy payment already
paid during the year.

Dr Income & Expenditure £44,494

Cr Accruals £44,494

Dr Receipts in Advance £16,535

Cr Creditors £16,535

Correction of a batch of invoices relating to 2007/08
which were originally mis-posted into 2008/09.

Dr Receipts in advance £63,913

Cr Debtors £63,913

Removal of receipt in advance which had not been
received prior to the year end.

Dr Payments in advance £53,567

Cr Receipts in advance £53,567

Reclassification of payment in advance figure
originally posted to receipts in advance.

Dr Statement of movement on general fund £1,232,000

Cr Income & Expenditure £1,232,000

Adjustment to correct FRS17 pension figures
disclosed in the financial statements

Dr Statement of movement on general fund £110,000

Cr Income & Expenditure £110,000

Dr Fixed Assets £110,000

Cr Capital Adjustment Account

Reduction in non enhancing capital costs written off
in year following professional valuation of Llanberis
and Harlech fire stations.

Dr Income & Expenditure £2,573,000

Cr Statement of movement on general fund £2,573,000

Corresponding adjustment also made to the statement
of total recognised gains and losses

Reclassification of fire fighters past service cost
figure, originally included in the income &
expenditure account, to actuarial gains and losses for
the year, following late guidance issued
recommending the change in treatment.

A number of narrative/presentational changes were
made to the statement of accounts and supporting
notes.

To ensure the statement of accounts is compliant
with the SORP.

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Summary of non material internal control items

Internal control issue Recommendation Management Response

Certain journals are prepared and posted by a member of the finance team without any independent review or authorisation.

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.

Management will ensure that steps be put in place to ensure all journals are authorised.

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.

A bad debt provision policy should be established. Common approaches include:

- a line by line assessment by management of the recoverability of each debt
- a general percentage of the year end debtor balances based on the age of debts and past experience of recoverability rates

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.

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.

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.

In future management will ensure

that the estimation technique for outstanding employers' liability claims at the year end is consistent year on year.

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.

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.

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.

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.

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.

Management have now put in place procedures to prevent a reoccurrence of the mis-posting of year end payments.

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